

**Cultural Capital and Entrepreneurship in Nepal:  
The Readymade Garment Industry as a Case  
Study**

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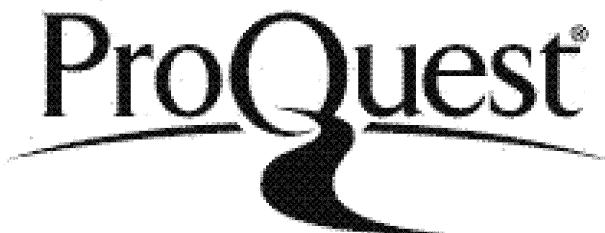


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## Abstract

This thesis is an ethnographic account of the modern readymade garment industry in Nepal which is at the forefront of Nepal's modernisation and entry into the global trade system. This industry was established in Nepal in 1974 when the United States imposed country-specific quotas on more advanced countries and flourished with Nepal's embrace of economic liberalisation in the 1990s. Post 2000 however, it faced two severe crises: the looming 2004 expiration of the US quota regime which would end the preferential treatment of Nepalese garments in international trade; and the local Maoist insurgency imposed serious labour and supply chain hurdles to its operations.

Such a common scenario saw different responses from the differing caste and ethnic groups operating within the garment industry. Bahun-Chhetris, the new business elites who had recently joined the industry aided by newly acquired finance, knowledge and skills, could only produce homogenous garments which would not survive the local and global crises. Marwaris and Buddhist Newars, the old business elites with differing political and cultural legacies, went on to produce specialised garments and successfully capture secure and profitable market niches. They achieved this either by using the material knowledge and networks accumulated over generations, or by invoking their cultural identities to legitimise their authority over the semiotics used to distinguish their products.

I examine Douglass North's theory on institutions and Pierre Bourdieu's theory on cultural capital to examine the relationship between formal and informal economic processes, and understand the way they transform throughout economic development. The habitus of transactional knowledge, structure and rules that prevailed in the conventional economy widened once it was exposed beyond its original boundaries. The new habitus has in turn drawn from the culture, history and politics of the old habitus as it set out to embrace new opportunities and threats. Such a transformation of the habitus has important distributional effects on the existing social structure and power balance between various communities within an economy.

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## Chapter 1: Introduction

This thesis focuses on the experience of modern business entrepreneurs in Nepal in the context of local and global transformations. Using the readymade garment industry as a case study, the thesis analyses the differences in the mental models of factory owners from various castes and ethnicities, and the implications of these models in the ways in which the different businesses are organised. I go on to show how entrepreneurs have developed differing business strategies in the context of the two specific challenges that the industry confronted in the new millennium, further highlighting the cultural as well as the material determinants of the factory owners' actions.

The export garment industry has been one of the most significant and also most controversial industries in Nepal. Even though it is still in its formative years, the industry has undergone a premature demise owing to hostile international policy changes as well as domestic political disruptions. Its rapid growth in the 1980s and 1990s occurred at a time when the country was undergoing far-reaching political, cultural and economic transformations; its sudden downfall after 2000 was brought about by Maoist-led labour unionism as well as by the international Multi-Fibre Arrangement (MFA) crisis, which I will discuss in detail in the succeeding subsections. The industry is notable for the exceptional rapidity with which it grew and for the dynamism it embraced throughout its turbulent growth. However, this industry should also be studied for the insurmountable crises it underwent – as part of a process through which important structural transformations emerged in Nepal's politics and economy.

The thesis draws from an ethnographic study of the readymade garment industry including detailed accounts of three of the factories. I not only worked in these three factories for eighteen months, but also socialised quite intimately both with the owners and their workers, participating in their religious and social rituals as well as in their business networking. At times when the factories shut down owing to political strikes, I opened up my residence where the factory owners, supervisors, and workers sometimes spent entire days exchanging factory issues and gossip. Once I became a familiar face in this circle, I undertook a survey of twenty-two factories where I informally interviewed the owners and managers to understand the nature of their products, their production processes and company organisations, and to record their growth trajectories. I also spent several weeks with the executives and clerks in the Garment Association of Nepal

(GAN) discussing broader policies and politics that affected the industry. When the opportunity arose, I later worked with the Nepali Embassy in the United States to lobby the case for subsidising Nepali garments in the American market. Since then, I have closely followed the political, economic and cultural changes of the past several years in Nepal both from within and outside the country.

### **1. Local institutions affecting the industry**

The growth of the garment industry is directly attributed to Nepal's departure from economic protectionism and its embrace of economic liberalisation, including the removal of entry and exit barriers into the domestic market, curtailing of tariff and non-tariff barriers on international trade and dismantling of the public subsidies to firms, etc. Economic liberalisation in Nepal was closely associated with the fall of the partyless Panchayat regime, which had been regarded as 'suited to the soil of Nepal,' and was known for being more patriotic than pluralistic. The collapse of the Panchayat regime increased the scope and depth of the engagement of international financial institutions (IFIs) in Nepal's economic policymaking. The IFIs were not involved directly with the garment industry *per se*, but they dictated a series of broad changes in the country's economic policies through their policy-based lending to the Nepali government. This process of economic liberalisation allowed the garment industry to make advances that otherwise would not have been possible.

The dismantling of the barriers to owning and running garment factories increased the number of factories several-fold. While most of the factory owners had been content to manufacture one or two types of garment before liberalisation, as local competition grew after more factories joined the industry, many began to diversify their products and markets. As the bar on technology and standards rose, factories increasingly incorporated specialised business services into their own operations, investing significantly in better machines and production mechanisms. With regard to labour, the industry soon discarded a primordial *juwadi* system to adopt a more scientific and cost-effective 'chain' system (see Section 3 of Chapter 4 for detailed discussions on factory operations in mass manufacturing). In terms of products, the industry gave rise to rare examples of the manufacturing of 'niche' garments where the producers circumvented the pressures of cost reduction by designing creative products and exploiting previously untapped segments of the global market (see Chapters 5 and 6 for detailed case studies on niche production).

The collapse of the Panchayat regime marked not only a reversal of economic protectionism and the opening up of the economy for international trade and investment, it was also a landmark as far as political liberalism was concerned. The ending of the regime gave rise to a myriad of political, occupational, cultural and social organisations concerned with advancing the roles of various interest groups in national politics and economics. On the one hand, business associations, including GAN, emerged as an important pressure group, forcing the State to reform bureaucratic procedures relating to industrial operations that had earlier bestowed special privileges on the political elites; on the other, through the thickening web of labour unions, the political parties increased their roles not only in national but also in grassroots politics (see Chapter 9 for detailed discussions of business associations and labour unions). It would be correct to say that while economic and political deregulation brought about a rapid growth of the readymade garment industry, at the same time it failed to uproot the structural insecurities inherent in the industry to which it finally fell prey.

The significance of the garment industry lay less in the numbers it employed but more in its catalysing of the structural transformation of Nepalese industry. The garment industry opened up new avenues for entrepreneurs and workers from various castes and ethnic groups of Nepali society. Historically, Nepal had followed a caste- and ethnicity-based occupational system within which the vocation of private entrepreneurship attracted only the relatively small merchant and trader caste groups. It is true that several non-merchant and non-trader castes including the Bahun-Chhetris and the Janajatis pursued entrepreneurship and artisanship after the scrapping of the caste-based *muluki ain* (penal code)<sup>1</sup> in 1951; however, Nepal's industrialisation remained so narrow-based in the 1960s and 1970s that there were no industries that could absorb the new cohort of non-caste entrepreneurs and workers. It is also true that the readymade garment industry initially demonstrated a strong Indian dominance both in its capitalisation and organisation; however, as it adapted to the forces of 'Nepalisation' and globalisation (Shakya, 2004) in the early and mid-1990s, it also attracted Nepali entrepreneurs not only from amongst those of Marwari origin but also from the ruling elites Bahun-Chhetris and the indigenous groups such as Gurungs, Lamas, Newars, etc. Further, as regards to

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<sup>1</sup> Throughout the eighteenth and early nineteenth centuries, Nepal maintained a caste-based social order enforced through a series of (unwritten) legal codes. Jung Bahadur Rana, the founder of the dictatorial Rana regime, had these legal codes reformed, written and centrally compiled as the *muluki ain* in 1852. Hofer (1979)'s translation and analysis found that it showed significant progress from the earlier codes but still legitimised a caste-based social order.

labour, the industry offered openings to the Nepali hill workers of all caste and ethnic origins who migrated to the Kathmandu Valley to escape from the brewing insurgency in the mountains (see Chapter 2 for a detailed discussion on relations between caste and ethnic communities throughout Nepal's political history).

In the garment industry, the relative stability of the late 1990s was overtaken by hostile political developments at the turn of the millennium, and the industry was taken hostage by circumstances beyond its control. It is true that the armed Maoist conflict initially won no support from the relatively privileged garment industry workers, and the extent of the damage to factories was limited to random strikes and disruptions in the factory supply chains. However, the effect of the second Maoist national convention of 2001 which officially adopted the hard line 'Prachanda path' and decisively shifted their attention from the rural periphery to the urban centre, was detrimental for the garment industry (see Chapter 9 on the impacts of Maoist insurgency on the garment industry). The chain system of labour management in the garment industry had anonymised the workforce and left them under loose control; the labour unionism of the mainstream political parties was porous at best and unresponsive to garment workers' needs at worst. It was then, not a surprise that the Maoists soon infiltrated and proselytised the garment labour force leaving the factories simply non-functional (see Chapter 9 for a detailed discussion on factory owners' negotiations with the Maoists). The political and cultural transformations that the industry has undergone opened up a whole new perspective on the study of the cultural embeddedness of economic relations, and its implications for the emerging political equations in Nepal.

## **2. Global institutions affecting the industry**

The garment industry was initially criticised as an industrial 'dowry'<sup>2</sup> from India. Indeed, in as much as the capital, labour, raw materials, technology and machinery all initially came from India, it hardly allowed for any significant value added from within Nepal. The Indian garment businessmen looked upon their 'flight'<sup>3</sup> to Nepal as a temporary and nominal escape from the country-based garment quotas being imposed on India by its largest importer, the United States. The gradual Nepalisation of the industry was driven as much by the tightening of the American checks on the rules of origin as by proactive efforts of Nepali businessmen to participate more fully in factory operations.

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<sup>2</sup> During conversations with factory owners.

<sup>3</sup> During conversations with officials of Department of Industries.

The United States gradually tightened its measures on ‘rules of origin’ such that the origin of the final assembling was no longer sufficient, but exporters had to demonstrate that the primary and secondary inputs had also been produced within the exporter country. The Nepali entrepreneurs took advantage of such measures to put more pressure on their Indian counterparts in converting the garment factories from mere assembly zones to full-fledged production plants.

The United States’ imposition of item-specific quotas for selected developing countries was a part of the 1974 global Multi-Fibre Arrangement (MFA), which not only spelled out precisely how many pieces of garment each country could export to the United States, but also developed an elaborate enforcement mechanism for its monitoring on a day-to-day basis. Based solely on the discretion of the United States, country quota levels could rise up to six per cent per year. Because this initial quota system seemed quite restrictive, several caveats were added to make it more flexible. For example, quotas could be transferred among product categories, unused quotas could be carried over to the next year, and even borrowed from the next year. This system of quota restrictions led to the development of country-based quota markets: if factories exceeded their own quota allotments, they could go on to the open market and buy extra from firms or individuals that had accumulated export quotas under prior agreements. When countries used up their quota allotments, they often moved their operations to neighbouring countries if the latter still had some quotas left.

The United States had conceptualised the MFA approach in order to reduce the rate of increase of East Asian and Indian garment exports to its market, intending thereby to redirect surplus exports to smaller and poorer countries whose exports were very small. It was anticipated that the quota privilege might lay the foundation for a broader industrialisation process in small and least developed countries. Such intentions manifested themselves very well in the distribution of the MFA quotas within the South Asia region. 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 was given the highest South Asian ‘quota per capita’ of 2.3 pieces per head, on the grounds that industrially the country was the laggard among all its neighbours in the region. The MFA, of course, offered regular incentives to local Nepali entrepreneurs as was anticipated. What was not anticipated was the possibility that the MFA restrictions would displace a large segment of the Indian garment industry

since the quota ceiling offered to India was much lower than its level of exports at that time. The displaced Indian garment factories quickly re-established themselves across the 1271 km long free border with Nepal which had always offered preferential treatment to Indian capital and labour. The fact that the garment industry was a sector rarely entered by local businessmen made Nepal an obvious choice for the displaced Indian garment factories.

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 hopes for a longer future. However, an agreement signed in Marrakesh on April 15, 1994 gave birth to the World Trade Organisation (WTO) effective as of January 1, 1995. The birth of the WTO led to the replacement of the MFA by the Agreement on Textiles and Clothing (ATC) which was intended to rid the international textile trade of any protection or regulation that was likely to undermine the free-market principles. A ten-member body under the ATC promptly took office to initiate work on the abolition of the MFA in four stages. Subsequently, a full phase-out of existing quotas was scheduled for January 1, 2005 which meant that Nepal would lose the implicit cost subsidies of up to 43% per cent (Birnbaum, 2000: 34) which had made it competitive in the global market despite high production costs.

The leading players in international trade increasingly regarded the replacement of the MFA with the ATC as non-negotiable, and developing countries became 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, had left the field by 2002 and others were following suit. This gave greater space to those who persevered in an industry often referred to as a *nibhna lageko diyo*<sup>4</sup> (a lamp soon to die out), indicating its short life ahead but also inferring that the lamp shone at its brightest just before it went out. While the factory owners appeared calm and optimistic, as I got to know them better, they told me that the MFA phase-out was like a ‘sword hanging above the head’. Indeed, when I returned to Nepal for a follow up visit in 2006, more than ninety per cent of the garment mass manufacturers – though not the few producers of specialised garments – had already closed down.

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<sup>4</sup> During conversations among the factory owners.

### 3. Caste and ethnicity in garment economics

As it became clearer over the years that the MFA-granted access to the global market for the readymade garment industry was destined to end within less than a decade, the garment entrepreneurs began to explore alternatives to mass manufacturing. The problem with mass manufacturing was that their products were, as they were bound to be, so homogenous across the world that the only way one could differentiate or compete with others was strictly on price. As they became more conversant with global developments in the industry, there was a general consensus among the Nepali garment producers that, as one of the executives of the garment association put it, ‘in order to survive the MFA, we must produce the kinds of garments to buy which our buyers would not look at the prices’.

The most notable variant of mass manufacturing that emerged in Nepal was the production of ethno-contemporary garments. Given that the Nepali fashion designing industry comes nowhere close to its international or even regional counterparts, Nepal’s garment designs had to embody distinctive cultural symbolism for them to appeal to a global clientele. The select few producers of specialised garments did precisely that, while many more who aspired to do so, found themselves unable to venture beyond their comfort zones despite their realisation that their current enterprises were doomed to fail beyond the end of the MFA. In particular, any use of original or improvised use of cultural symbols and materials, without exception so far, has come from the ‘authentic’ bearers of that local culture within the broader national culture. In other words, the specialised garment makers who designed garments that capitalised on symbolism deriving from Nepal’s medieval history as contributors to Tibetan Buddhism, without exception, were the Buddhist Newars. Similarly, those who conveyed the richness and vibrancy of exotic textiles, colours and embroideries, have inevitably had ethnic connections with the flatlands of southern Nepal and northern India. I did not find a single exception where members of one caste or ethnicity had capitalised on the culture of another. The castes and ethnicities whose local culture did not (yet) have an international audience, including the Hindu ruling elites or the Bahun-Chhetris, were unable to move from the world of mass manufacturing to the world of niche production.

Partly as a corollary of this statement, and partly in contradiction to it, there is another discussion running through my thesis: the fundamental assumption of scarcity and hence of competition. Within this line of discussion, North (1990b), while dismissing the

accompanying neoclassical assumption of frictionless exchange process, reaffirmed the robustness of the ideas of scarcity and competition. The successful producers of specialised garments, who were few, were those who survived the rigours of cost and design-based competition. The remainder of their fellow caste/ethnicity members later went back to either the world of their traditional vocations or that of mass manufacturing.

Directly related to the question of which castes and ethnicities emerged as specialised garment producers is: what changes emerged within their individual caste and ethnic orders after they began to produce niche products for outsiders – and in this process, allied themselves with non-caste financiers, technicians and service providers? The niche producers tried to offer what they believed was the best that might appeal to the global clientele, and while doing so, they tried to make themselves into what they thought their buyers valued and desired. They made efforts to remain personally loyal to their foreign buyers in the way they would be loyal to family and kin; they built homes and factories that had Western comforts yet resonated cultural architectural distinctions, they entertained their buyers in the personal spaces of their homes and social rituals and stepped into the buyers' spaces of Western-style business dinners and drinks. Above all, they made every possible effort to choose to work with buyers who embodied the best of their own cultural expectations in terms of partnership and 'brotherhood'. Such complexities of 'modern' and 'cultural' which were central to product specialisation among Nepali garment manufacturers and exporters is also part of this thesis' remit.

### **3. The thesis and the research methodology**

My work is an ethnographic study substantiating the theory of institutions which broadly falsifies the neoclassical claim that there exists a unique prescription for economic growth of universal application (North, 1990b). This is done through highlighting two core shortfalls of the neoclassical theory, namely, the assumptions of instrumental rationality and frictionless transactions. Two important schools of thoughts have developed within the theory of institutions. The 'new' institutional economics, or NIE, differs from the newly revived old institutional theory on two counts: first, NIE treats 'institutions' deterministically thereby losing a more important aspect of institutions which has to do with their inherent informality; and second, it overemphasises economist rationality, neglecting North's caution that economism has led NIE studies astray.

The original institutionalist theory has recently been placed within a framework for the analysis of economic organisation. Whitley's (1999) comparative-business-systems framework studies the variations in economic organisational structures across societies, and attributes these to the transactional differences arising from the varied mental models of entrepreneurs in different societies. The premise of trust is implicit in the discourse on divergent capitalism in that trust is one of the key societal constituents which might contribute to reduction of transaction costs, but it does not necessarily evolve in a neoclassically rational pattern. However, there is a shortcoming in that the institutionalist concept of 'mental models' is one-dimensional. I argue that it is Bourdieu's discussion of cultural capital, situated in the discipline of sociology (1984) that has problematised the institutionalisation of class distinction, social networking and values within and beyond economic organisation. Bourdieu's definition of cultural capital extends the logic of economic analysis to ostensibly non-economic forms of power and courses of action which he expresses through concepts such as embodied capital (which requires pedagogical action and investment of time and social connections), objectified capital (such as in books and art objects whose use necessitates a cultural distinction of taste), and institutionalised capital (attained and reproduced through the educational credential system). Bourdieu uses these concepts to form a central argument on 'habitus' or class-specific dispositions that are internalised through early socialisation in family and peer groups with which individuals negotiate their positions in societies. Habitus is not an innate capacity but a 'structured structure' and a mix of the various forms of capitals, tastes and values. It is fairly resistant to change and is a static concept, but there is also an ongoing adaptation process that occurs as it encounters new situations, however slow and unconscious it may be, which Bourdieu calls 'defensive strategies'.

In my analysis of the cultural capital within the otherwise mundane worlds of the readymade garment industry, I show the slow process of the broadening of the habitus of entrepreneurs that encouraged them to abandon their traditional vocations to venture into the new opportunities offered by the readymade garment industry. Drawing from the anthropological and sociological studies undertaken among the business entrepreneurs, including Singer (1972), Rudner (1994) and Fukuyama (1995), my analysis revolves around the following questions: what is the relationship between formal and informal economic processes and how are they transformed as the economy modernises; what happens to the transactional knowledge and networks, motivations and preferences, and the values and norms that prevailed in the original society, once it expands beyond its

original frontiers; and how does such a transformation, in turn, affect the existing economic, political and cultural structure and the power balance between various groups within the society?

My methodology is primarily an ethnographic one. I worked as an unpaid employee in the three garment factories which I later developed as my case studies of the economic organisation among three different elite castes and ethnicities. I started out as a voluntary 'thread-cutter' along with other unskilled workers who cut off hanging threads after garments had been stitched but before they were sent for finishing. In Arya-Nepal, a mass manufacturer, I was soon able to migrate to the office of the Production Manager situated adjacent to and overlooking the main stitching floor from where I kept a close ear on the news and gossip brewing among both the owners and workers. Occasionally, I undertook minor tasks like 'time analysis' which required standing for hours on the stitching floor to time each sub-process of production and submit reports to management on the average time required for production. At other times I was an obedient observer simply taking notes of owners' and supervisors' informal discussions. In Rongoli, a specialised producer, I split my time between the owners' office and the designers' workshop. With the owners, I was a simple observer who would listen as they negotiated the prices and purchases of fabrics with weavers, traders and prospective fabric suppliers. With the designers, who were always experimenting with colours and designs, I was a live mannequin modelling and commenting on their ideas, and a messenger running to and fro between them and the tailors, embroiderers and storekeepers. In Swakan-Chhemu, I shared a room with the fashion designer and the graphics designer, adjacent to the owners' rooms on the top floor, and I undertook secretarial tasks such as designing brochures and commercial advertisements. When their fashion designers and buyers came to Kathmandu, I took them on tours and interpreted during their conversations with tailors and embroiderers. These tasks still left me plenty of time to interview and socialise with workers on lower floors.

As they got to know me better, owners and workers increasingly came to my residence for 'time-pass' when the factories were shut down owing to political strikes which sometimes went on for several days at a time. This was an excellent opportunity for me to immerse myself into the world of garments as an ethnographer, as well as to broaden my base from the immediate anchoring in my three case studies. Using my newly acquired identity as an affiliate with Arya-Nepal<sup>3</sup>, I found my way into twenty-two other

mass manufacturing garment factories. After satisfying their concerns and suspicions about my possible connections with labour or environmental activists critical of the industry (and seen as being out to 'kill' the industry), I interviewed the owners and managers in these factories about the nature and scope of their products, and the various organisational mechanisms they employed over time. Some of my interviewees were also the elected executives of the business association of the garment entrepreneurs, which indirectly opened doors for me at the Garment Association of Nepal.

I produced a preliminary report based on my survey which recorded the growth trajectory of the garment industry and answered some obvious questions about the origin of capital, management and labour in this industry. This earned me a nominally paid consultancy from GAN and the Nepali Embassy in the United States when they set out to lobby for subsidising Nepali garments in the American market. I spent approximately three months of my fieldwork in this lobbying and informally interviewing the executives and clerks in GAN. I wrapped up my official fieldwork in March 2006, but I have continued to follow the political, economic and cultural changes in the country closely.

The core of my thesis comes from the comparison of products and markets, organisations and networking and motivations and preferences of the three case studies. Their economic boundaries, constitutions and development are my focus of analysis. I extend this to study under what conditions particular kinds of factories become established, or counterfactually, what are the conditions that bar other kinds of factories from being formed. An observation of such conditions leads me to my core argument, which is that the institutions contributing to such developments are a complex whole that includes not only the economics of market and politics but also ostensibly non-economic elements such as caste and ethnicity as well as the values, knowledge and networks associated with these. And subsidiary to these are the nature of businessmen's relationships with their employees, contractors, customers, competitors and the State.

Each of the companies in my case studies was owned by members of caste and ethnic groups whose predominance amongst Nepal's business enterprises was apparent. (See case study Chapters 4, 5 and 6 for detailed discussions on their cultural, political and economic histories). My first case study, Arya-Nepal, was representative of the garment mass-manufacturers who constituted more than ninety per cent of the garment industry in Nepal before the MFA expired. Arya-Nepal was run by Bahun-Chhetris who later began

to employ ‘scientific’ and Taylorist production methods after the kin-based *juwadi* system ceased to be economically effective. Although they suffered from cut throat competition arising from exclusive negotiations on costs and were aware of the MFA-related challenges looming on the horizon, they continued to remain a mass manufacturer of cheap and homogenous garments until the very end. This was more out of necessity than by choice. After the CEO of Arya-Nepal tried and failed to persuade the owner of specialised garment producer Rongoli, a close friend of his, to do business with him either as a partner or as a supplier, Arya-Nepal’s existence was fully dependent on its uncompromising financiers from Punjab and opportunist buyers from the United States. As members of the ruling caste, however, the Arya-Nepal owners had privileged access to the State bureaucracy regulating business enterprises.

Swakan-Chhemu, comparable to Arya-Nepal in size but contrasting in its product range and organisation, was owned and run by Buddhist Newars. Swakan-Chhemu produced specialised garments still employing the old machines and the kinship-based *juwadi* labour system. Although they did not have specialised skills in modern fashion design, they embodied the grand history of the Nepal-Tibet trade of medieval times, and were known to international Tibet activists and philosophers as contributors to Tibetan Buddhism. As a result, they received subsidised finance, dedicated designing contributions and privileged market access from European followers of Tibetan Buddhism. The family head of the Swakan-Chhemu owners was a renowned local leader who used his political connections to develop business networks both locally and internationally. This gave the family the kind of unique knowledge and insights that was the privilege of very few of the Newar business elites. Several other Newars who were also keen to pursue similar business opportunities did not have similar access to political connections, with the result that they either remained in the traditional industries of the old economy or, if they moved to the new industries, remained on their peripheries.

Rongoli was, by contrast, a smaller factory producing specialised garments, owned and run by Hindu Marwaris who had migrated to Nepal from India. The Rongoli owners not only excelled in their knowledge of the art and trade of textiles through their family vocation, but also maintained a dense, web-like network of kin, castemen and friends all over India. These attributes helped them to design superior garments that competed well in global niche markets despite the fact that their machines were outdated and their operations old-fashioned. They recruited their workers on considerations of personal

loyalty, managed them on a case by case basis that was time consuming and extremely complicated, and when satisfied, retained them by asserting the factory's 'ownership' of their labour and weaving a web of relational obligations.

In general, deregulation of the local market and integration with the global market increased the number of contenders and thus generated competition, which was expected in turn to constrain investment in economically inefficient activities while encouraging activities in which the economy had a comparative advantage<sup>5</sup> over others. While countries more favourably located within the main routes of global supply chains were better suited for large-scale manufacturing of cheap and homogenous garments, Nepal's geographic location gave it a pronounced comparative advantage in higher-value and creative garments. Within the country, however, Nepal's liberalisation efforts, which eventually led it to the world of niche manufacturing, have resulted in a form of cultural dualism in which a strong niche has been opened up for the old business elites – the Marwaris and Buddhist Newars – coupled with loss of State protectionism and absence of compensating opportunities for the 'new' Bahun-Chhetri business elites. The old business elites' associations with the niche markets came not only from their human capital of business-specific knowledge and skills, and their social capital of useful social networks, but largely from their cultural capital of motivations, understandings and dispositions. Not all members of the old business elites successfully managed the transition from the older, local market to modern global markets, but more importantly, none from the new business elites even ventured out anywhere close to the trajectories that led to the global niche markets. The new business elites were largely found confined within the infant business ventures which became less and less profitable over time as State and international protections were scrapped. While the transitory quota privileges assigned in the garment industry under the MFA may have offered uniform business opportunities for all, its expiration was definite, and beyond it entrepreneurs had to rely solely on their global competitiveness. Hence, improvisation of their cultural products to adapt them to modern tastes for distinction seemed to be the economically efficient business strategy for garment factory owners in Nepal.

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<sup>5</sup> 'Comparative advantage' is the term David Ricardo developed to argue that countries should not worry much about what they can produce cheapest but compare themselves with other countries operating in the global market, and produce only those commodities that they can produce cheaper than their trade partners.

Similarly, anonymous chain systems of labour organisation as well as chaotic labour unionism are unlikely to be efficient in the long run in a society where personal and business loyalties are tied to culturally nuanced relational obligations rather than pure monetary calculation or legal prescription. Cynicism about the chain system was apparent among the niche producers who did not have the same constraints of volatility and cost, and who had higher expectations of labour in regard to both loyalty and skill. There was also a clear emphasis on the role of cultural institutions in factory organisation as Maoist labour unionism and business extortionism focused on the garment industry, easily sidelining the labour unions led by the mainstream political parties. In general, the superiority of those who could exploit their cultural capital in the creation of goods and control of the production process seemed to have left behind those who could not do so and who hence remained hostage to transitory subsidies occasionally dished out by the national and global bureaucracies.

Additionally, the renewed importance of cultural capital in developing products and organising production for the global market brought about important changes in the existing social structure and power balance between various social groups within the Nepali economy. The old elites formed alliances with international financiers, designers and buyers, where entrepreneurs' positions were structurally different from those in their old alliances with individuals within the society. There were conflicts of values, preferences and interests. Because business entrepreneurs were very often dependent on their international counterparts for their financial and market access, careful checks were undertaken – and rightly so – of the motivations and dispositions of the foreign counterparts with whom they were likely to do business. Such checks far surpassed strictly economic calculation. Once the conditions were met and the alliances were stable, the measures these entrepreneurs employed to maintain these also were less business-like and more family or kin-like.

This thesis is arranged in four sections. Under Section 1, Chapter 1 has introduced the subject of the thesis. Chapter 2 will reconstruct the political, economic and cultural history of Nepal, which helps explain the contemporary relations of the caste and ethnic groups discussed and will situate the history of the development of the garment industry. Chapter 3 provides the conceptual and theoretical framework. The second section (Chapters 4, 5, and 6) sets out the three case studies and discusses the cultural capital inherent in each case in detail. The third section (Chapters 7, 8, and 9) develops the

analytical argument of the thesis. Chapter 7 will examine the relevance of Bourdieu's discourse on restructuring of social classes for the widening and modernising 'field' of specialised garment manufacturing in Nepal. Chapter 8 will discuss the industrial organisation in the garment industry following Whitley's comparative-business-systems approach. Chapter 9 will offer an account of the functioning of business and labour associations in the context of the growing internal and international crises, and argue that politics, economics and culture are not neatly compartmentalised but are deeply entangled with each other. Chapter 10 is the fourth section, which will conclude the thesis.

## **Chapter 2: Reconstructing the history of factories, politics and culture**

Setting aside minor exceptions, it is a largely taken-for-granted fact of life among Nepalis that everyone has a caste or ethnic identity which is not only known to the person involved but also to everybody around him or her, thus propagating for centuries a unique political and cultural hierarchy encompassing all aspects of life, be it religion, State-building, politics or business entrepreneurship. Hence, more specifically, the question of business enterprise development is one that historically has been closely interconnected with that of political and societal systems. Here, I explore the particular outcomes – at the factory, industry and national levels – of the interplay between local cultural politics of caste and ethnicity and global influences of foreign trade and liberalisation, through successive waves of integration into the world system. It is also the less frequented story of the three important castes and ethnicities that have reconstituted themselves, variously, as the old and new business elites in Nepal within the enterprises of late capitalism. Drawing on these records, my aim in the present chapter is to trace the changing relations of production and culture in the readymade garment industry, as Nepal first, embraced political and economic pluralism, and second, began to reengage with the old order of caste and ethnicity within the renewed order of local politics and global trade.

### **1. The State evolves, 1560-1951 (and a stage set for old entrepreneurs)**

King Prithvi Narayan Shah (1723-1775), under whose rule the Nepali State was unified in 1769, famously compared Nepal's geopolitical situation to that of a 'yam balanced between two boulders'. This view was in sharp contrast to the one maintained by his predecessors – the Malla or the Newar dynasty that had ruled the core of the then fragmented Nepal kingdom for over five centuries. On the one hand, the Newars had maintained a close cultural, political and economic relationship with Tibet, especially following the marriage of the legendary Nepali princess Bhrikuti to the Tibetan emperor Srong Btsan Sgam Po, which opened the doors for Nepal's export of Buddhist philosophy and art to Tibet. On the other hand, they had little or no relationship with the Indian subcontinent south of their border. Their successors, the Shahs, initiated a political and cultural relationship with India, although this translated little into economic transactions between the two countries. Nepal had no competitive advantages in regard to the vast Indian economy, although it had a strong geographic advantage in being

Tibet's only gateway to the world. Not surprisingly, Nepal's economic borders remained sealed in the south through the thick, malaria-infested forests of *Charkose Jhadi* even after the Shah dynasty rule took root and the medieval laws on international trade maintained a sole focus on Nepal-Tibet trade.

Medieval Nepal's geographic advantage lay in the fact that the lowest two of the dozen passes that went into Tibet from the southern plains – Kuti and Kyirong – passed via the Kathmandu Valley. Frequent skirmishes occurred between Nepal and Tibet on the terms of use of these two passes. Finally, a legendary Newar ruler, Bhim Malla, brokered a deal in 1650 which not only gave Nepal unlimited rights to live in and trade permanently from Lhasa and Kuti, but also a monopoly over minting Tibetan coins. The 1650 treaty also mandated that Tibet conduct all of its trade, including that with Sikkim and Bhutan, through Nepal (Rankin 2004: 90; Slusser 1982: 70; Snellgrove and Richardson 1968: 146). Nepal exported artefacts, spiritual books, spices, embroidery, cotton and jewellery to Tibet in return for gold, silver, precious stones, musk, silk and salt. The overall trade, however, continued to be legitimised by the exchange of art, philosophy and culture.

Although the Newars from the Kathmandu Valley monopolised trade with Tibet, they were not a homogenous group. Gellner and Quigley (1999: 13) have discussed the 'double-headed' caste hierarchy among the Newars, which maintains two competing sacerdotal groups—the Hindus and the Buddhists—each claiming ritual leadership of an otherwise unitary hierarchy. Given that the medieval Nepal-Tibet trade was legitimised by Buddhist art and culture, it better suited the Newar Buddhists whose ecclesiastical vocation overlapped with their economic one.<sup>6</sup> This remained true even after King Prithvi Narayan Shah's conquest of the Kathmandu Valley and transfer of State power from the Newars to the Shahs (Chhetris). Non-Buddhist and non-Newar traders did not gain access to the Nepal-Tibet trade simply because it fell outside their vocational ambit and they lacked the cultural capital essential to it (Lall, 1999). The archives of the official correspondence between Nepal and Tibet confirm that Tibet had played an active role in ensuring that non-Buddhist and non-Newar traders from Nepal could not

<sup>6</sup> An obvious exception to this would be the Hindu Shresthas from Sankhu who participated in the Tibet-Nepal trade along with the Buddhist Newars. However, it should be noted that they were a minority among the Tibet traders and joined the trade only after the route had already become well established, taking advantage of their geographic location. Sankhu is known to be Kathmandu Valley's gateway to the Tibet route. Leaving aside Sankhu Shresthas, Nepal-Tibet trade largely consisted of the Buddhist trader castes – Shakyas, Bajracharyas and Urays. See Lewis p. 38-79 in Gellner and Quigley (1999).

penetrate this trade (Acharya, 1999). Reacting to such an exclusion, the Shah kings issued a State decree that all Buddhist Newar traders must perform the ritual of *jaat litkayagu* (regaining their caste) from a Hindu Bahun upon conclusion of their trip to Tibet where they had supposedly consumed yak or cow meat, the animal deeply revered by the Hindus. The caste-regaining ritual went on for months, throughout which the traders were forbidden from entering their own homes or meeting any of their family and the caste community. As Shah rule deepened its roots, the Newars, especially Buddhist Newars found themselves more and more marginalised. Certainly no regular intermarriage took place between the Newars and the Bahun-Chhetris (Gellner and Quigley 1999: 10).

Tibet and Nepal fought three violent wars after the Shah dynasty displaced the Newar rulers. The first Nepal-Tibet War of 1786 was waged to settle disputes over the purity of Tibetan coins minted in Nepal. The second war of 1791 stemmed from disputes arising from the fact that Nepal had given protection to Syamarpa Lama, a high profile Tibetan political refugee in Nepal. A third war was fought in 1855 in the aftermath of Tibet's (and China's) refusal to support Nepal in its resistance to an assault from the British East India Company in the south. Tibet's response to Nepal's plea for support against the British had clearly shown that it retained a grudge against the Shahs for displacing the Newar rulers from the Kathmandu Valley.<sup>7</sup>

Nepal's comparative advantage over the Tibet trade began to dwindle in the late nineteenth century. Geographically, the British opened a new route via Sikkim in 1877 and subsequently linked it with a railroad between Darjeeling and Kolkata in 1881. Politically, Sir Francis Younghusband's Tibet expedition of 1904 – ironically assisted by the contemporary Rana regime of Nepal – imposed a new treaty on Tibet to end Nepal's legal monopoly over Tibet's foreign trade and initiate trade with the East India Company (Acharya, 1999: 233 and Whelpton, 2005: 77). Further, as the Chinese invaded Tibet in 1950 and closed borders with Nepal in 1959, the Nepal-Tibet trade came to a standstill

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<sup>7</sup> '... We Tibetans do not get involved in affairs of other countries. We had been trading and coexisting harmoniously when you attacked the Malla Kings of Kathmandu kingdom and defeated them. We did not get involved because we respect the affairs of other countries. Likewise, whatever issues with your southern neighbours, you must solve them with your own diplomacy and resources...' (Translation from Tibet archives in Acharya 1997: 208). These statements evoke a sense of irony when read in the context that Tibet did provide financial aid to the Newar rulers in their war against King Prithvi Narayan Shah.

(Rankin, 2004; Patterson, 1962; Fretchette, 2003).<sup>8</sup> With it came the demise of the glory of the Buddhist Newar traders, who gradually slipped into the political and economic shadows and whose plight was equated to that of the lost Nabobs of Lucknow (Malla, 1992: 24).

By the mid-1880s, British India was exerting such an overwhelming influence on Nepal as to put its independence in question. With British help, the Rana family had confined the Shah kings and become the *de facto* rulers in Nepal, and they (the Ranas) resisted Indian (British) influence very little. Further, the Indian railway revolution and the industrial gains the British brought to India in the late nineteenth century affected Nepal profoundly. The demand for inputs for Indian infrastructure projects prompted the ruling Ranas to initiate various business ventures and finally to declare an ‘open border’ between the two countries. As a result, Indian consumer goods began to find their way into the Nepalese market through railway links built close to the Nepal-India check-posts of Nepalganj (far west), Biratnagar and Birganj (east) and Janakpur (centre). The demographic situation on the Nepal-India border, or the Terai belt, began to develop in ways which would store up trouble for the future.

In return for the loyalty of the Ranas, including their military support in quelling the first Indian Sepoy mutiny in 1857, the British returned two bordering districts in the far west, Kanchanpur and Kailali, to Nepal. Being flat and warm, this land was much more fertile than the hills. Although the Ranas were concerned only with expanding their personal revenue base, Prime Minister Jung Bahadur Rana called this piece of land the *naya muluk* (new nation), and it inspired him to conceptualise an ambitious industrialisation package to build the first cohort of industries in Nepal (Whelpton, 2005: 77). Still under the overwhelming Indian (British) influence, the Ranas officially issued a *pragyapan patra* (State letter of invitation) in 1875 to invite thirty Marwari businessmen from North India to establish various commercial manufacturing and processing plants as well as to develop distribution networks in Nepal for Indian consumer goods.<sup>9</sup> The first modern industry in Nepal—a jute mill—was established in 1936 by Radha Kissen Chamaria, a

<sup>8</sup> The number of Newar trade houses in Tibet fell from 2000 in 1888 to 500 in 1907, and again to only 42 in 1923. The weakening trade was brought to a complete end by the Chinese occupation of Tibet in 1950, when as Rankin has noted, the last Newar merchant from Sankhu left Tibet (2004: 99).

<sup>9</sup> Similar caste-based formal policies have been seen in Nepal as early as the seventeenth century. Siddhi Narsingha Malla had invited a priest clan from South India to serve as the designated priests in Pashupatinath Temple. The arrival of the Rajkarnikars as confectionary producers and Rajopadhyaya Brahmins and Kayasthas as Hindu priests further supported caste-based policies prevalent in medieval Nepal.

Kolkata Marwari, in joint partnership with Juddha Shamsher Rana, Prime Minister at the time. In 1942 two paper mills were established in joint partnership with the Ranas and the Marwaris (Gaige, 1975). Processing plants for matches, cigarettes, rice and vegetable oil were established in the same area soon afterwards, mostly to fill the shortages caused by World War II, and were again jointly owned by the Marwaris and the Ranas. The Marwaris remained in Nepal as a minority group, comprising a mere 0.2 per cent of Nepal's population (Whelpton 2005: 9), but importantly, because of the proximity to the infrastructure developed in the southern belt of Terai after deforestation removed the natural border of the *Charkose Jhadi* forests, the crucial control over the so-called 'open-border' between Nepal and India remained in the hands of the Marwaris along with other local residents of Terai, i.e., the Madheshis (see Section 4 of Chapter 4).

It would be safe to say then that the macroeconomic and social policies both before and after the unification of Nepal were dominated by caste-based decrees. The bulk of Nepal's social policies were guided by Manusmriti, an ancient Hindu doctrine that was modified from time to time, in which occupations were to be decided by birth and reinforced by strict State laws on commensality and consexuality. The *muluki ain* (penal code)<sup>10</sup> of 1854 was the first written legal document and came across as a somewhat liberalised version of the caste-based division of labour that had prevailed in the Nepali society over centuries. Although it claimed to encourage people to pursue their chosen occupation, the *ain* not only maintained the status quo on commensality and conviviality rules but also made it legally mandatory that citizens report any violations of caste-based norms that might occur within their families and communities (Hofer, 1979: 197).<sup>11</sup> Not surprisingly, caste-based politico-economic job division remained intact in Nepal and until the fall of the Rana regime in 1951, only two *vaishya* caste groups, the Newars and the Marwaris, contested for entrepreneurial monopoly over the country.

## 2. The State modernises, 1951–1990 (and a stage set for the garment industry)

The modern State of Nepal dates back to 1951, when the popular political movement jointly led by an alliance between the Shah monarch and peoples' political parties overthrew the Rana regime. This change of regime led to some economic and political modernisation, and gave rise to a formal institutional structure of governance. Although

<sup>10</sup>

<sup>11</sup> Spouses and parents were obliged to inform against family members if the any of the latter infringed upon commensality rules. This shows the extent to which the State interfered with private lives of people, hence engineering the economic and political structure of society.

the new constitution and the laws did away with blatant provisions which were discriminatory to various castes and ethnicities; these same new laws gave a new role to the State in revenue collection and distribution, thereby leaving space for implicit differentiation in its treatment of various caste and ethnic constituencies.

The immediate conditions for the historic political uprising that ousted the Rana regime were set by the departure of the British from India, who earlier had been the primary supporters of the Ranas, but the background for this uprising was woven through decades of marginalisation of the Shah kings and oppression of the Nepali people. The rift within the Rana family, especially after they divided themselves into *rolewalah* (legitimate and in line to the throne) and *berolwalah* (not contestant to the throne), further weakened their regime. The disenfranchised Shah King Tribhuvan was an accomplice in the underground popular democratic movement although this could never be legally proven by the Ranas even when they were searching for pretexts on which to further increase their control over the Shah Kings. The Ranas reacted to the popular movement by brutally suppressing it at all levels. However, the *muluki ain* was so powerful an institution at that time that they could not do away with caste-based treatment even when responding to such serious charges as treason. For example, when the secrets of the first political party, Praja Parisad, were uncovered, all captured leaders were either publicly hanged or shot to death, but Tanka Prasad Acharya, a Bahun, had to be spared. The common law had categorically defined *bramha-hatya*, or murder of a Bahun, to be a sin more hideous than even a proven case of treason. As James Fisher (1997) has argued in his seminal work on the ‘living martyrs’ of Nepal, the principles of caste-based purity and pollution widely dictated the contemporary common law that prevailed under the Rana regime. Not surprisingly, the first generation of political leaders who survived the brutal oppression of the Rana regime was almost exclusively Bahuns, a legacy that continues to haunt Nepal after several decades.

The tri-partite agreement brokered by Jawaharlal Nehru in New Delhi in 1951 between the Ranas, King Tribhuvan Shah and the political parties formally transferred power and helped form a coalition government which officially ended the Rana rule in Nepal. A new constitution was drafted and promulgated in 1959. In spite of popular demand for an election of a constituent assembly, the constitution was written by a commission

appointed by King Mahendra<sup>12</sup> and all political parties were banned except for the monarchist Panchayat Party. The new constitution annulled the caste-based *muluki ain* and denounced caste-based discrimination for the first time, but also declared Nepal a Hindu kingdom where a Hindu monarch would be the *de facto* and *de jure* head of State. A specific provision was made that killing of a cow or ox would be considered manslaughter. Further, a clause was added providing that the *sanatan* (customary) laws would be recognised by the court – thereby implicitly tolerating the caste-based discrimination still widely being practiced. These developments supported the notion that the post-1951 Panchayatocracy dwelt in a cultural paradox where the State disregarded the institutions of caste and ethnicity but did not dismantle them; in fact, these were to soon re-manifest in a different *avatar* within the modern governance structure and make a smooth transition to modernity.

In a national election that followed soon after the promulgation of the new constitution, the numerically inferior Bahun-Chhetris won an overwhelming majority while the Janajatis (hill tribes) and low caste people were grossly underrepresented. This paved the way for the passage of the controversial Civil Service Act of 1956, which was widely criticised by the representatives of the Janajatis for being pro-Hindu and pro-Sanskrit (Seddon, 2001: 87-91). On entrepreneurship, the Business Companies Act of 1951 was of key importance in the modernisation of economic governance in Nepal. Over ninety new private joint stock companies were registered under this Act between 1952 and 1964 which should be seen as significant progress. The Act, in theory, encouraged all castes and ethnicities to join business enterprises, but in practice it failed to attract the *janajatis* and lower-castes into doing business simply because they did not have access to the resources required. Instead, the new elites quickly tapped into the opportunity opened up by lucrative public subsidies and incentives offered to business enterprises. Other than a few Newars, Thakalis and Lamas, the new elites who became business entrepreneurs were the Bahun-Chhetris who had accumulated large fixed assets during the Rana regime through *bakhjis* (gratuities) and *dakshina* (spiritual offerings) but had been hesitant to put these into commercial ventures because of the caste-related stigma attached.

The 1970s and 1980s saw a rapid increase in State discretion with regard to business enterprises. The first three National Economic Plans – of 1956, 1962 and 1965 –

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<sup>12</sup> By this time, King Mahendra had taken over the rule upon the death of his father King Tribhuvan in 1955.

explicitly declared State protection for cottage and small industries, and implicitly sought to protect all other industries from foreign competition. The Industrial Act of 1974, on the one hand, standardised the definitions and procedures in various business laws and controlled enterprise proliferation through quotas and licenses; and on the other, dished out generous State subsidies in forms of banking and tax regulations. The Industrial Act of 1981 announced an even more generous, non-discretionary six-year tax holiday for all cottage industries. This was to be followed by a series of yet other subsidies and incentives, including a discretionary tax exemption for industries producing or distributing essential goods and infrastructure. A Nine-Point Export Promotion Programme was introduced in 1984 that allowed exporters access to concessional credit; the Nepal Industrial Development Corporation (NIDC), a government-controlled capital investment entity was directed to compulsorily allocate ten per cent of its investment in export industries. The nature of the State protection of various industrial sectors however did little to correct the caste and ethnic biases that had influenced State allocation of resources for centuries; if anything, it exacerbated this by letting the subsidies be captured by the new elites within the status quo.

It was only to be expected that the best protected industries went into the hands of the ruling elites while marginalised caste and ethnic groups proliferated in the least protected industries. For example, the trans-Himalayan trade, which was once a grand cultural trade, had by then shrunk into an insignificant bartering of salt and other basic necessity goods, and was now dominated by rural Newars and Sherpas. In contrast, the National Salt Trading Corporation, a modern lucrative parastatal that had gained the monopoly over distribution of essential commodities throughout the nation, was dominated by the Marwaris and the Bahun-Chhetris (Zivetz 1992: 67; Upreti 1999: 134). Rankin (2004: 105) showed that while several of the old business elites, the Sankhu Newars, primarily worked in the informal sector, they avoided joining the formal economy where they could no longer avoid State bureaucracy. Quigley (1985a) showed that the Dhulikhel Newars were extremely risk-averse in having to interact with State institutions. A large number of Newars in the heart of the Kathmandu Valley owned micro businesses that remained outside the reach of State regulation. The capitals invested in these businesses almost always came from within families,<sup>13</sup> and the profits earned were distributed amongst household members without using any legal documents or procedures.

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<sup>13</sup> Quigley (1984: 291) specified that the Sakhu Newars mostly kept their business (or monetary) transactions within their large joint families, and when this was not possible, entered into relational

The Marwaris controlled most of the large enterprises in the late twentieth century that had to do with India, including the cross-border transportation industry – be it exports of edibles and medicinal herbs or imports of mechanical and luxury goods, food and clothing. Other Marwari business strongholds included retailing of Indian textiles, clothing, machinery, etc. Even today, the Marwaris continue to have an implicit advantage in dealing with the so-called ‘open border’ between Nepal and India which remains a black hole of bureaucratic cobwebs and criminal mafia which are only tips of the iceberg that is Nepal-India foreign policy (see Section 4 of Chapter 4). Culturally, the Marwaris were recognised for their business acumen and strong networking skills; moreover, as Whelpton (2005: 145) argued, they were the visible outsiders and minorities who constituted less than 0.2 per cent of the total population who would never pose any real threat to the Bahun-Chhetris who remained the *de facto* political elites. In fact, the Bahun-Chhetris themselves were increasingly discarding their conventional vocation of priesthood and academia, and had begun to enter into business from the 1960s onwards. They were also forming business partnerships with the Marwaris to pursue emerging entrepreneurial avenues in several sectors.

The new entrepreneurial opportunities for Nepal had to do with its opening up to the world, for tourism and artefact trade, adventure travel and development. These offered generous benefits for the Bahun-Chhetris (as travel operators and development activists), Newars (as artefact and handicraft traders) and other Janajatis such as Sherpas and Gurungs (as mountaineering and travel guides). More importantly, the opening up also laid the foundation for modern garment manufacturing in Nepal which is the industry that lies at the core of my thesis: In 1981, Shah Safari, a Seattle-based distributor of Indian ethno-contemporary garments, owned by two ethnic Indian entrepreneurs of Kenyan nationality,<sup>14</sup> came to Nepal in search of cheap and loyal franchising. They did not set up their own factory but opened a buying house which contracted and trained fifteen young Nepali entrepreneurs to produce garments following their designs. By 1982, the number of trainees had doubled. Add to these several others who also began to work for Shah Safari under the recommendation and supervision of the original contractors, and the number of garment factories in Nepal soon exceeded fifty.

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contracts with strangers (though within the community) while carefully avoiding mixing business with social rituals within kin.

<sup>14</sup> Raj Shan and Akhil Shah were brothers and long-time business partners.

Apart from one Newar and one Janajati,<sup>15</sup> all of the trainees the Shah Brothers chose to invest in were Bahun-Chhetris. None were Marwaris. The logic I was given for this was that while they wanted people who were well educated with good management skills, and who were easy for them to communicate with, they did not trust those associated with India not to give out their business secrets elsewhere. This logic is not very clear because the Shah Brothers did move their production bases first to Ahmadabad and then to Lucknow after they closed their buying house in Nepal in 1988. The argument I was given for the latter was that the Shah Brothers did so thinking they could actually draw from the rich textiles and traditional designing worlds of those cities. In this, they were not successful. Eventually, Shah Safari closed down its clothing chain in the early 1990s to focus on their business in sports accessories chains. Back in Nepal, as global and local awareness of MFA provisions grew, garment buyers operating from Indian and East Asian, as well as American cities, had already begun to initiate business with garment manufacturers operating from Nepal, including several former Shah Safari contractors.

With rare exceptions, all of the garment factories in the mid-1980s were located in Baneswor, a neighbourhood with an area of less than one square kilometre, fast emerging at that time as a hub for newcomers to the Kathmandu Valley, mostly from southern Nepal and northern Indian regions. Almost all of these factories were 'dependent' partnerships with manufacturers and 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 in factory operations (Zivetz, 1992: 182). Most of the Nepali partners served the bureaucratic purpose of having to have a Nepali partner as per the Industrial Act of 1981, and almost all of them were either Bahun-Chhetris or Marwaris (see Subsection 4a for a discussion on caste and ethnicity in the garment industry).

From the mid-1980s, as Nepali partners of the garment factories began to take a keen interest in the opportunities offered by the industry, some significant changes both in its ownership and labour force structure began to emerge. Over the years, the Nepali entrepreneurs had developed some familiarity with production and trading components of the business through their limited exposure as sleeping partners. In any case, the industry at that time focused on basic and homogenised products which involved

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<sup>15</sup> This person who came from the eastern high Himalayas and had a Lama surname, had important political connections with the ruling Bahun-Chhetris.

repetition of set tasks that could be picked up through watching and doing. As Nepalis within and outside business partnerships with the Indians became more interested in the industry, investment skyrocketed, following what can be called a herd mentality rather than a pragmatic business rationale. There were also several cases of false registration of ghost factories, whose only intention was to hoard MFA quotas with the intention that these could subsequently be sold to exporters from Nepal or India. Owing to such factors, the number of registered garment factories exceeded 700 by 1990.

### **3. The State liberalises (and the garment industry takes the centre stage)**

In 1990, the Panchayat system was overthrown by what has come to be called the *janandolan* (the people's movement). At one level, there were street demonstrations for several months with forty-one official martyrs before King Birendra agreed to legalise political parties and allow a new constitution. At another level, the Nepali monarchy had so angered India over an arms deal with China that in 1989 India responded by sealing the Nepal-India border until Nepal virtually ran out of daily necessities such as petrol, oil and sugar for three months. After the success of the 1990 *janandolan* the new constitution promulgated in 1991 defined Nepal as a 'multi-ethnic, multilingual, democratic, independent, indivisible, sovereign, Hindu and Constitutional Monarchical Kingdom'. Ethnic and religious activists were very disappointed that the word Hindu still remained; nonetheless, the addition of the word 'multi-ethnic' was a genuinely new departure. Soon after, in 1992, the new government issued a new Industrial Act which spelled out a radical programme embracing economic liberalisation. Although Nepal had signed two important policy lending contracts with the World Bank and the IMF in 1986 and 1989 agreeing to deregulate the domestic market and international trade from State interference, it was not until the change in political regime that it truly began to implement them.

On an ethnic front, the 1990 movement gave rise to an entirely new situation, which can be compared to a rapid and not wholly predictable process of 'ethno genesis' similar to what happened in India during the time of independence, and for rather similar reasons (Whelpton, 2005; Pfaff-Czarnecka, 1999; Gellner, 2003). The formerly marginalised castes and ethnicities felt that they had been liberated by the demise of the Panchayat ideology that had claimed that all Nepalis were the same while in practice institutionalising high caste Bahun-Chhetri (or Parbatiya) supremacy. For the first time, national radio and television was allowed to broadcast news in multiple ethnic languages.

It was no longer compulsory to wear the ‘national’ costume *daura suruwal*, essentially Bahun-Chhetri attire, while taking oath as a parliamentarian. Ethnic differences began to acquire increasing political salience, especially with the publication, for the first time in 1991, of data on caste and ethnic group affiliation. The new rights freely to ‘be organised’ gave a new impetus to the already existing ethnic associations such as the Nepal Bhasha Manka Khala (for Newars), Dharmodaya Sabha (all Janajatis including the Newars), Kalyankarini Sabha (for the Tharus), etc. In 1990 a new national organisation, the Nepal Janajati Adivasi Mahasangh or Nepal Association of Indigenous Nationalities (NIFIN) was founded which brought 59 officially recognised ethnic groups under one umbrella and has been successful in attracting large grants from the British Department for International Development (DFID). Such proliferation of ethnicity-based organisations raised expectations of inclusion in State governance, which unfortunately were only poorly responded to by the State. For example, the 2001 census showed that the Bahun-Chhetris continued to have an overwhelming presence in public life. Despite constituting only 31 per cent of the population, they led all major political parties and took two-thirds of the jobs in the judiciary, universities and the civil service. The hill Janajatis with 22 per cent of the population had just 7 per cent of these jobs; the Madheshis from Terai, with 31 per cent of the population had only 11 per cent of these jobs and the Dalits with nearly 9 per cent of the population, just 0.3 per cent of the jobs.

The breeze of liberalism swept across all sectors, and the business enterprise sector did not remain untouched. A series of important legal and policy measures followed the liberal industrial policy of 1992, which took concrete measures to end the privilege of the political elites over entrepreneurial opportunities and public subsidies. Most of the subsidies were discontinued and entry/exit barriers and quota regulations were removed so that access to entrepreneurial opportunities was no longer confined to selected population groups. Further, the Foreign Investment and Technology Transfer Act of 1996 not only allowed one hundred per cent foreign investments in business ventures without having to find a Nepali business partner, but also eased controls on capital repatriation. The amendment of the industrial policy significantly simplified business registration and operation procedures and improved the overall business climate. Among others, Garment Association of Nepal, established in 1988, was reformed substantially in 1992 and delegated powers of supervising the task of distributing MFA quotas to exporters which solved the problems of quota-hoarding by the elite. Further, an Industrial Promotion Board was set up in 1997 to ensure effective monitoring of the

implementation of policies announced and provisions made. A series of business membership organisations evolved in time to facilitate further dialogue between the public and private sector on issues relating to entrepreneurship and business operations. This meant at least in principle that the new local business elites now had to compete not only with the old elites and the 'non-' elites but also with international entrepreneurs in running their businesses.

Even though the business laws were significantly modernised and made more transparent, the non-elite (and the less State-preferred old elite) castes and ethnicities continued to suffer from unfair treatment by the State on some occasions. For example, during my interviews with several garment businessmen in 2004, I learned that it was common among the non-Bahun-Chhetri businessmen, especially those who could afford to do so, to subcontract the entire task of business registration, tax management and customs-related bureaucratic procedures to an outside contractor. Bahun-Chhetris, often retirees from the public civil service, were the ones providing such services to business houses. It was also common that non-Bahun-Chhetri businessmen did not receive State incentives even when they qualified for them. Where such incentives were negligible, the businessmen ignored them; where they were significant, they either approached the government through the business association or their designated subcontractors who had more influence on the public servants. It was only rarely that the Bahun-Chhetri entrepreneurs whom I interviewed subcontracted such tasks, nor did they complain about not being awarded the subsidies when qualified to receive them. The Marwari entrepreneurs also had few complaints about bureaucratic procedures and access to public subsidies. The Newar entrepreneurs, on the other hand, suffered greatly, and complained that the State bureaucracy was *ghushyaha* (bribe-taking) and *pakshapati* (discriminatory), and that any problems could be handled only by having *thaha manu* (kin and friends) in the system.

### **3a. Liberalisation brings sophistication<sup>16</sup> to the process of garment-making**

The most serious challenge the Nepalese garment industry faced when it became integrated with the global market after economic liberalisation was that of technology and standards. On one hand, the Indian-made and manually-powered *tullu* machines

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<sup>16</sup> Within the short span of a few decades, the garment industry had transformed itself from an unorganised group of subcontractors undertaking simple production chores on behalf of a single multinational buyer, to a full-fledged industry demonstrating a coherent production mechanism and commanding its own eclectic pool of suppliers, service providers, subcontractors and buyers.

which were initially being used no longer met the global standards, and hence had to be replaced with Japanese (Juki brand), German (Brother brand) or at least Taiwanese machines. On the other hand, main stitching had to be synchronised with specialised stitches such as 'over-locking,' 'flat-locking,' or 'button-holing,' which in turn meant factories could no longer hire contracted services of *thekedars* (or traditional middlemen) as they had traditionally done, but had to incorporate the workers and supervisors into mainstream factory operations. While the Indian machines cost no more than 40 US dollars, the Japanese machines cost about USD 400, and the specialised machines more than USD 900. Such a technological upgrade required more serious financial investment than business entrepreneurs could afford at that time.

#### Factory Organisation Before and After Liberalisation

Indicators	Before Liberalisation	After Liberalisation
No. of machines per factory (avg)	91	309
Type of machines	Indian single-needle machines with manual power	Juki, Brother and some Taiwanese brands. Single-needle, over-lock and flat-lock machines
No. of workers per factory (avg)	158	417
Terms of employment for workers	Juwadi. Workers paid and managed by contractor	Daily wages for unskilled workers; piece-rates for skilled workers; and monthly salaries for admin staff
Subcontracted functions	Cutting, stitching, washing/finishing, embroidery/ screen-printing, packing	Washing, embroidery and screen-printing in addition to regular tasks listed
Source: Semi-structured interviews among 22 factories within Kathmandu, December 2003		

Even with intensifying capital demands, the business prospects still looked very attractive at that time, and several entrepreneurs were able to either borrow money from or partner with financiers from Nepal and India to meet capital needs. The formation of the elite segment also marked a restructuring of the labour management structure and the overall production mechanism: Factories moved away from the semi-contracted and informal *juwadi* system to a more integrated and scientifically incorporated chain system.<sup>17</sup> With such visible upgrades ongoing, the garment industry attracted a large

<sup>17</sup> See Section 4c of Chapter 6 for detailed discussions on *juwadi* system and Section 3 of Chapter 4 for detailed discussions on chain system.

number of new factories in the early 1990s: there were less than a hundred factories registered with GAN in 1988, but over seven hundred by 1992.

#### Production Before and After Liberalisation

Factory Indicators	Until Liberalisation	After Liberalisation
Production item as per US-assigned categories <sup>18</sup>	347, 348 (occasional cases of 335, 340, 341, 342)	347, 348, 335, 338, 339, 340, 341, 342, 641, 642, 647, 648, 841, 835
Production items whose wholesale price exceeded USD 4	64%	45%
Average size of order (no. of pieces)	16,790	80,853
Lead time required (no. of days)	87.5	77.5
Buyers	Shah Safari, Kellwood, F.W. Woolworth, Body Drama, Jeetish, Till's, Children's Place	GAP, Wal-mart, K-mart, Kohls, AMC, Target, JCPenny, Zara, Miss Erica, Colby, May Dept. Store, Lee & Fung
Raw materials diversification	Mostly from India	More from China than India

**Source:** Semi-structured interviews among 22 factories within Kathmandu, December 2003

The mid-1990s marked a turbulent period in the garment industry in Nepal where cut throat competition on costs instigated a race to the bottom, forcing factories to either merge and scale up or leave the field. From 1067 factories in 1994, the number declined to 323 in 1995, 212 in 1997, and fewer still in later years. It is important to note, however, that the surviving factories were much larger in size than their predecessors: While an average factory owned 91 machines and employed 158 workers in the 1980s, it owned 309 machines and employed 417 workers in the late 1990s.<sup>19</sup> The factories in the late 1990s had not only diversified their products and markets but also the sourcing of their inputs (see table). They no longer remained dependent on two staple garment items of #347/#348 (trousers and shorts), but had taken to manufacturing other garment items that were slightly more difficult to manage. The size of their purchase orders had

<sup>18</sup> 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' denote cotton, '6' rayon and '8' silk.

<sup>19</sup> The increase in the number of machines is even more noteworthy when taking into consideration the fact that the garment factories had abandoned traditional Indian machines to buy and install new Japanese, German or Taiwanese machines during this time and that each of the latter cost ten times that of the former.

increased four-fold and their ‘churning,’ ‘making,’ or ‘lead’ time had significantly reduced. But even then, prices had gone down and profit margins were shrinking: while more than 60 per cent of their production fetched over USD 4 per piece before liberalisation, only 45 per cent managed to do so after.

The garment industry headed to a steep downfall in the early 2000s as it became clear that the MFA would not be extended beyond December 2004. Speculation about a possible renewal – drawn from prior experiences of its easy renewals in 1981, 1986 and 1994 – proved wrong; and with that the industry was doomed to fail. As the domestic political situation also deteriorated in Nepal, investors began to pull out of the industry very rapidly. In 2001, there were less than 35 factories working at normal capacity. In February 2004, when I (formally) concluded my fieldwork in the factories, more than 80 per cent of the exports recorded in the GAN register came from only eight factories with just occasional business from twenty-five others. Morale hit rock bottom as Cotton Comforts Pvt Ltd, the factory that had won the ‘best performer’ award consecutively for three years since 2000, shut down its operations in October 2005. When I visited Kathmandu in late 2006, there were less than ten factories in operation.

### **3b. Liberalisation also leads to a global niche market of ethnic-contemporary designs**

Mass manufacturing factories do not tell the whole story of the Nepalese garment industry; it is also necessary to turn to the story of the select factories producing for international niche markets. The niche producers are the enviable *thula-badas* (bigger and better ones) of the Nepalese garment world. A rough comparison of two of my case studies from each world (Rongoli (niche) and Arya-Nepal (mass)) reveals that the niche producers are smaller, slimmer and more cost-effective rivals to the mass producers. Rongoli had fixed assets worth only thirteen thousand US dollars which earned them a profit of over eight hundred thousand US dollars every year. In contrast, Arya-Nepal had over three hundred thousand dollars worth of fixed assets that earned them less than three hundred thousand dollars every year. Other figures are listed below.

### A comparison between mass manufacturers and niche producers

Indicators	Niche producer	Mass manufacturer
Total turnover (USD, in 000)	1,680	5,760
Output (no. of pieces, in 000)	84	960
Gross profit (USD, in 000)	840	288
Retail price per unit (USD)	35-180	10-30
Avg. cost per unit in the factory (USD) (fabrics, accessories and labour costs)	10	2.70
Average size of order (no. of pieces)	700	40,000
Method of payment	Advance payment	Letter of credit
Fixed assets of the factory (USD, in 000)	13	313
No. of people working in the factory	152	750

Source: Fieldwork, December 2002- 03

What can be bluntly said about niche garment exporters is the following. First, niche producers are far and few between: there were only five in 2001, and from what my respondents told me, only seven in 1994, at a time when there were 1,087 mass manufacturers. Second, five of the niche producers produced ethnic-contemporary garments.<sup>20</sup> And third, every time ethnic materials and symbols were incorporated into modern garment-making, which marked the very essence of niche garments from Nepal, this was only done by the ethnic experts of such skills. In other words, all of the niche producers tapped into their culturally inherited skills and identities to legitimise their claim over the niche they captured. For example, when original or improvised forms of Buddhist Newar ethnic elements were incorporated into modern garments, it was only Buddhist Newars who did it. The Marwaris worked from their insights into traditionally produced cloth from various parts of India. One Hindu Newar factory marketed modern clothing with only slight touches of tastefully decorated elements from common Newar traditions of cloth-weaving, knitting and colouring.

What can also be said unequivocally about niche producers is that the process through which they have come to be the kind of producers they are is the longest and most

<sup>20</sup> The remaining two niche producers operated on a very small scale and one had shut down after a factory accident. They produced colourful and funky 'crazy' hats and costumes for Western parties.

complex in the garment industry. The niche producers had produced or sold traditional cloth, clothes, accessories or symbolic arts, to a series of succeeding social elites that dominated various phases and turns of the economy long before the new world of the exportable garment industry arose.<sup>21</sup> And the way they currently organise their production bears a strong resemblance to what and how their caste/ethnic groups were producing before economic modernisation.<sup>22</sup> In other words, today's niche product has come about through a process of negotiation and renegotiation through which it has gradually evolved to its present form – the kinds of ethno-contemporary clothes in demand amongst a Western elite clientele living thousands of miles away from their own worlds. While the problem of what Spivak ((1988) in Ortner, 1999: 18)) calls 'subalternism,' or unequal distribution of voice and interpretation in dialogues between the dominant and the dominated, bars the niche producers from meaningfully influencing the world of global buyers and consumers, their own worlds are continually being reshaped by their resistance.

One important manifestation of niche producers' resistance can be seen in the way they have used global consumer movements to air their own voice. Niche production is driven fundamentally by the growing influence of the fair trade movement and cultural connoisseurship among middle class consumers in the global market – a process unfolding alongside, but independently of, the worldwide web of mainstream garment trade dictated by economies of scale. Western consumers' perceptions of Nepal as the Himalayan Shangri-La or a mystic land of both Hindu and Buddhist spiritualities have contributed profoundly to creating the kinds of niches Nepali exporters are currently tapping into. The first pioneers of such connoisseur taste, both among the wholesale buyers and retail customers of these niche products, indeed have been those who had developed the taste for Nepali landscapes, hospitalities and values before even developing the taste for Nepali niche garments. These producers, entrepreneurs and consumers created and tapped into opportunities for business as soon as industrial policies became more liberal and transparent with political and economic liberalisation.

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<sup>21</sup> For example, both of my case studies, Rongoli and Swakan-Chhemu, have at times sold to hippie tourists and the development expatriates in the 1970s and 1980s; some of their tailors worked for the Rana elites during the Rana regime.

<sup>22</sup> See Chapter 6 where I argue that what and how Rongoli and Swakan-Chhemu currently produce for the niche garment market have elements of similarity with the old markets of Indrachok and Boudha where the Marwaris and Buddhist Newars traditionally functioned.

One niche producer associated with Nepal is worth special mention, not only because the owners were the first to envisage such an enterprise but also because they did so without having recourse to the local culture in the way local people did subsequently. Shah Safari, the first and only garment buying house to be established in Nepal was also the first and only foreign niche producer in Nepal. The Shah family had emigrated from Bombay to Kenya in the early 1900s, where the family sold textiles in Mombasa, a coastal city overlooking the Indian Ocean. In 1975, the two brothers – Raj and Akhil Shah – formed their apparel company and began experimenting with identifying trends through the use of Indian cultural fabrics and silhouettes. They sold Indian garments, for instance, at a time when the Beatles had gone to India to visit the Maharishi and Western people had begun embracing loose garments and Madras plaid shirts. The clothing, festooned with bold, bright screen-print graphics, quickly became synonymous with 1980s fashion, giving Shah Safari, at one point, a 25 per cent market share on the American West Coast for young men's woven tops. Owing to the increasing scale of their production, however, Shah Safari closed its buying house in Nepal in 1988, and moved to the more rigorous production worlds of Lucknow and Ahmadabad in India.

Although most of the Nepali entrepreneurs aspired to design their own garments in the way Shah Safari did, and although this looked feasible to many Bahun-Chhetri garment-makers who knew (by then) as much about both garment-making and Hindu asceticism as the Shah brothers did, none could actually manage it. The majority of them experimented to a certain degree by creating garment designs that were 'like' Shah Safari garments, but this simply did not work because they were in no position to attract the Shahs' original buyers spread through the large cities on the American West Coast. Worse still, a number of Indian garment-makers had already begun to expand their reach among the potential niche markets in various parts of the United States. The Nepali entrepreneurs faced a dead end in imitation production. Some of them chose instead to manufacture for the local market. India offered duty-free status to 'luxury' goods Nepal imported from a third country for domestic non-industrial consumption. Taking advantage of this policy loophole, some Nepali entrepreneurs imported high quality textiles from East Asia and designed teenage garments with fake Japanese and Singaporean labels to sell within the local market.

Other entrepreneurs developed business deals with Japanese garment importers who were interested in cottage-woven cotton fabrics in Nepal. There was a demand in the Japanese market for what they called *kozak monito*, a loose and hooded outfit made out of

plain and coarse natural cotton. This engaged several Nepali garment-makers who were more interested in manufacturing (labour) time-consuming garments for high prices rather than competing in the market for cheap garments. The newly established Garment Association of Nepal (GAN) collaborated with the Rotary Club in Kathmandu to organise study tours for Nepali garment entrepreneurs to visit distributors' outlets in major cities in Japan. Unlike many donor-driven study tours facilitated by the government bureaucrats which resulted in no tangible outcome, participants in the GAN-managed study tours did successfully develop business deals with the Japanese importers. However, these opportunities were soon captured by the business elites who also controlled the key official positions within GAN.

I summarise the previous paragraphs before I move to my next point on the comparability of niche producers with mass producers. In short, those that emerged as successful and established niche producers over the course of decades were those who explored new methods of bettering garment designs through the use of improvised traditional ethnic textiles, designs, colour combinations and silhouettes that would satisfy the followers of modern global fashion. These manufacturers almost always used their ethnic cultural capital to distinguish their designs from both local and global garments. They also almost always worked with one or few buyers, who in turn had chosen them carefully on the basis of their knowledge and interest in specific ethnic identities within a broader 'Nepali' identity, and their business relationships were developed over the course of decades. This rare group within the garment industry later metamorphosed into a guild of modern and sophisticated garment designers (see Chapters 5 and 6 for detailed case studies of two different kinds of niche manufacturing).

Can we really compare mass manufacturers with niche producers? The key question in the comparison of these two within a study of cultural differences in business entrepreneurship has to do with an underlying dilemma about whether and in what way niche manufacturers are present in the world of mass manufacturing, and vice versa. I will answer this question in two parts: the first concerns the breaking down of the 'material' barriers between the two. The fact is that the opportunities and threats prevalent in mass manufacturing are also applicable to niche producers of readymade garments, because they both operate under a common policy and market perimeters. As the forces of liberalisation increasingly integrate their shop floors and markets, the material barriers between the two – be it the distribution of local and global policy

privileges, the bureaucracies of factory registration and MFA-quota administration, or the interface with suppliers, service providers, business and labour associations – are virtually no more.

The second part involves ‘subjective’ barriers among the business entrepreneurs which were on the rise as concerns increased over the MFA crisis. The more desperate the mass manufacturers became to develop an exit strategy from the MFA-dependent sub sector of garment manufacturing, the more determined the niche producers became in guarding the secrets of their skills, knowledge and networks. For example, the niche producers barred the mass manufacturers from having physical access to the factory floors of niche production even whilst maintaining close friendships and collegial relationships. The fundamental separation of the conceptual worlds of differing castes and ethnicities and dismal progress in their subjective convergence even after their material worlds had converged, ensured that the traditional knowledge and skills of niche production remained fragmented among the caste/ethnic specialists. Yet, the mass producers have made strong efforts on the ground, and their collective aspiration has increased due to the local and global crises that have lately come to threaten their world. One of my respondents, Sameer – the production manager in Arya-Nepal – is a testament to the mass producers’ aspirations and efforts to subjectivise the material convergence between the two sub sectors. In the meantime, the immediate fruitlessness of his personal struggles is also a statement about the deeper virtual chasms that continue to remain between them.

A late teenager from a priestly Bahun-Chhetri caste, Sameer entered the garment world as an apprentice in his father’s factory Arya-Nepal1 in the 1980s, which later merged with a neighbouring factory to form Arya-Nepal2 in 1992. In his own words, he hardly had a ‘normal youth’ because he was already too busy carrying out factory chores at an age when his peers were ‘fooling around and having fun’. When the Nepal-India transit disputes created a shortage of petrol in Kathmandu for months, Sameer was busy queuing up for petrol and transporting the barrels on his bicycle to the machines of the then respected *juwadi thekedars*. When the government delegated the MFA quota administration to the GAN, he was the ‘face’ for Arya-Nepal2, managing all the paperwork and keeping everyone at GAN happy. When Arya-Nepal2 closed down in 1999, he experimented with other jobs in the garment industry including day-jobbing for a Korean buying agent negotiating with the Nepali mass producers, but nothing led him

to the world of niche production. As Arya-Nepal3 also began to develop worrying symptoms after 2002, he and Navin – his CEO, did as much *chakari* (appeasing) as they could of the owners of Rongoli whom they knew well enough to spend several evenings together in a row just ‘talking about life and the world’. Not only was a business alliance not on offer from the Rongoli owners, but they were never even invited to the Rongoli factory floor. When Arya-Nepal3 did eventually close down in 2003, Sameer took a one-year diploma with a reputed textile and fashion designing institute, only to resign after obtaining the degree saying that, ‘...fashion designing for the local market is like going four hundred years backward. Today, both us (East) and them (West) buy clothes from each other, or at least, buy clothes that are supposed to be from each other.<sup>23</sup> The only clothes locals buy locally are the traditional clothes that are those sold in (the old cloth market of) Indrachok, and only married women wear them. Ok, if you are lucky, some tourists might venture in for some souvenirs to take back home, but that is not enough business for a serious entrepreneur.’ The rest of the clothes consumed by urban elites and middle-class families are increasingly imported from East Asia and elsewhere. In the end, Sameer left the garment world altogether to start a tour operating company for backpackers where he is doing well so far (see Chapter 4 on Arya-Nepal for detailed contextualising of this narrative).

#### **4. A counter-order emerges as the Maoists play the ethnicity card**

The seeds for the Maoist movement were sown in the ‘third plenum’ held by Prachanda’s Communist Party of Nepal (Maoist) in March 1995 which foreswore the general elections and decided to take up arms (Thapa and Sijapati, 2004: 36). They launched the People’s War on February 12, 1996, with simultaneous attacks on police stations in the far western districts of Rolpa, Rukum and Sindhuli and on an agricultural bank and the Action Aid office in Gorkha. The Nepali Maoists had long observed ethnic differences and factored these into their strategic calculations, in a manner not very different from the Indian Naxalites’ attempts to establish bases in tribal areas. It was no coincidence that the Maoists made the Kham Magar regions of Rolpa and Rukum districts their base area. These areas had been under leftist influence from the 1950s onwards and the village of Thabang was already known as a communist stronghold in the Panchayat days. It was also shown in the number of media interviews Chairman Prachanda gave where he

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<sup>23</sup> His reference was to the fact that a lot of Western brands sold cheaply in Kathmandu were not manufactured by Westerners but were fakes made in East Asian or South Asian factories.

emphasised the expertise and commitment of the Nepali ‘Mongolian’ and ‘Chinese-looking’ ethnic groups in warfare and communism.

After their second national Maoist convention in February 2001, the Maoists adopted a new doctrine, the ‘Prachanda path,’ a combination of Marxism-Leninism-Maoism which advocated a dual strategy of simultaneous armed conflict and urban mass uprising. One of the slogans of the Second Convention was, ‘let us consolidate and expand our base areas and move forwards towards a people’s government in the centre’. The urban uprising was to be spearheaded by frontal organisations of students, women, farmers and factory labourers against the ‘feudal’ and ‘imperial’ elements of the status quo. The shift of the Maoist attention from the periphery to the centre brought the urban industrial workers to Maoist attention. Malleable as they were, the Maoists successfully proselytised the workers in the garment, carpet and hotel industries towards a new labour unionism which left these industries non-functional (see Chapter 9 for details on the Maoist problem in the garment industry and the businessmen’s negotiation tactics). The internal factions emerging within the ruling Nepali Congress only exacerbated the situation. For example, GP Koirala had ousted KP Bhattarai from the government in March 2000, accusing him of failing to maintain law and order. His own proposal to set up a paramilitary force for national security and appoint regional administrators to quell the insurgency had been disapproved both by King Birendra and the parliament. In April 2001, the Maoists gunned down over 70 policemen in what was one of the deadliest attacks, and the police chief formally admitted he could fight the Maoists no longer. Soon after, the Royal massacre happened on 1 June 2001 and the Maoists stepped up their attack simultaneously in several districts. Failing to mobilise the army, Koirala resigned to give way to Sher Bahadur Deuba. Prime Minister Deuba brokered a truce with the Maoists between July to November 2001, during which three rounds of peace talks were held, though all inconclusively.

In addition, the sporadic but momentous ethnic movements like that of the Terai put even more pressure on the State to no longer ignore the institutions of caste, ethnicity and regionalism. As seen during the recent Terai movement, the protestors openly dismissed the authority of not only the State police and senior political leaders such as GP Koirala, but the Maoists’ supreme command itself. Instead, a new political party, Madhesi Janadikar Forum, quickly rose to fill the vacuum created by public desertion of the mainstream political parties and the Maoists. Such paradoxical developments

emphatically nullified the Maoists' capture of the ethnicity card at least in the Terai region. All these form a preliminary basis for research on the local dynamics of the Maoist order and an emerging counter-order which is increasingly being defined by their reintroduction of the old institution of caste and ethnicity in a modern global order. This is particularly so because the Communist and Maoist movements are globally noted for their opposition to 'culture' including caste/ethnicity-based institutions. It has to be said that determining what has already changed and what is emerging about the current epoch of 'Maoism' and 'counter-Maoism,' and what marks the pluralism of economic and cultural order that prevails at this time of historic transition in Nepal, is decidedly tricky.

#### **4a. Caste and ethnic composition in the garment industry**

So far, I have shown the strong interconnections in Nepal between economic, political and cultural histories. I have referred to the caste and ethnic implications of the grand shift of the readymade garment industry from India to Nepal and I have shown varied State preferences for different castes and ethnicities in Nepal throughout the medieval and modern politico-economies. Related to this, I have also discussed the two distinct sub sectors within the world of garment manufacturing, which use different sets of cultural capital and hence allow prevalence of different caste and ethnic groups across them. I have also flagged that emerging in Nepal is a sort of 'counter-order' where the old baggage of caste and ethnicity is being brought to the forefront by the new political forces that are the Maoists. The following chapters will demonstrate how business entrepreneurs from differing castes and ethnicities have coped differently with these new developments. But here I offer a broader description of the caste/ethnic composition of the garment industry.

I have already discussed the Panchayat State-building which favoured the Bahun-Chhetris and the Marwaris over the Newars in the allocation of State subsidies for newly emerging entrepreneurial opportunities. I have also discussed Shah Safari's mentorship of the first generation garment-makers in Nepal, which again were largely Bahun-Chhetris. Owing largely to these two reasons, most of the mass manufacturers of the readymade garments are still the new entrepreneurs or Bahun-Chhetris.

A disproportionate number of readymade garment factories were owned by the Bahun-Chhetris, Marwaris and other Hindu castes. There were few Buddhists, Muslims, Christians or Janajatis operating garment factories. This had important implications for

the way business partnerships worked in this industry. I looked at the castes and ethnicities of business ownership among 93 garment manufacturing firms, among which 49 factories were business partnership firms. Sixteen of these had closed by March 2004. Among the 33 that were still operating, the business partnership was almost always between the Bahun-Chhetris from India and Nepal. Only one of the 33 factories that I surveyed was a business partnership between a Newar Buddhist and a Hindu of Indian origin, while thirty were partnerships between the Hindus. Within this, fourteen of the business partnerships were between Nepali Hill Hindus; eleven were between Nepali Hindus of Indian origin; and five were between the Nepali Hill Hindus and Hindus of Indian origin.<sup>24</sup> The business registration records of GAN and my informal interviews with its key officials, as well as other specialists in the garment industry confirmed that hardly any non-Hindu Indian garment industrialists had moved to Nepal over the past three decades.

Within the bigger world of garment-making, I have discussed the motivations, conceptualisations and valuations of the niche producers stating a range of cases and examples. The bottom line is that all of the niche producers are old business elites and they all exploit their cultural capital in producing niche products. But, what we also need is the counterfactual, that is, do old business elites behave differently from their new business elite counterparts if they are operating in the same sub sector? As the figures above reaffirm, there are very few old indigenous business elites who operate as mass manufacturers. However, the rare cases that do exist show that old business elites act more or less the same as new business elites when they operate in mass manufacturing. For example, like their Bahun-Chhetri counterparts, two mass garment producers I knew from the Newar ethnicity relied on the Indian Tullu machines until the Japanese Juki machines came on board; they relied on the *juwadi* system until the industry was compelled to adapt to the chain system after global integration. There were, nonetheless, a few differences that I could note. First, the Newars appeared less comfortable in their dealings with buyers, especially if the buyers were Indian, which was almost always the case. To remedy this, both of the Newar factories eventually turned themselves into local subcontractors of a larger business house Cotton Comforts Pvt. Ltd.<sup>25</sup> Second,

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<sup>24</sup> Since this was based on secondary data, religions are assigned as per surnames and with only cursory background checks with acquaintance. I could not ascertain religions of two of the factory owners.

<sup>25</sup> Unlike other mass manufacturers who relied on opportunistic transactions with random global buyers and local subcontractors for a race to the bottom, Cotton Comforts maintained a steady business relationship not only with their sole buyer Gap Inc. but also with their local subcontractors.

unlike several others who did not want to deviate from staple production, both the Newar factories undertook experiments to differentiate themselves from others. For example, one of the Newar manufacturers in question once set up a women-only factory plant following success stories from the Bangladeshi garment industry, though unfortunately it could not be sustained for too long because of the problem of high absenteeism. The other took the opportunity to do one order from a Japanese buyer for designing clothes out of Nepalese hand-woven cotton fabrics. Although the owner was enthusiastic about the prospects of this deal, he never received a repeat order.

There was a third (Hindu) Newar-owned garment industry, which had entered into garment manufacturing through a different path. He had been manufacturing jeans wear, t-shirts and other western clothes using imported textiles from East Asia which he would sell under fake Japanese and American brands in local Kathmandu retail stores. As the State allocated duty-related subsidies for the export sector and as the global garment buyers poured into Nepal in the 1980s, this Newar garment factory gradually migrated to mainstream mass manufacturing for exports, abandoning their local market clientele. Their products, markets and operations now differed little from the rest of the mass manufacturers who sold to American and European distributors.

## 5. A summary

In this section, I have offered a progress report on modernisation in Nepal, some thirty years on from Andres Hofer's (1979) translation of Nepal's *muluki ain* (penal code), against the strictly caste-based legal system that had dominated Nepal's society and economy for the preceding five centuries. The second and third points of comparison are the two popular political uprisings, which, first confined the monarchy into a constitutional monarchy, and eventually, led all political forces in the country towards a dialogue on republicanism. While the multi-party parliamentarian system liberalised caste- and ethnicity-based organisations from political suppression, I argue that the Maoists finally brought back the 'old' baggage of caste and ethnicity to the forefront of modern State-building. I explore cultural and political embeddedness within a broader social organisation, which in turn, has deep implications for the dispositions of social groups within the country's entrepreneurial order. It has to be said that determining what has changed and what is emerging in terms of the economic, cultural and political order at this time of historic transition in Nepal, is extremely complicated.

The contrast between the political, cultural and economic systems Nepal embraced under the Panchayat regime and the multi-party democracy jointly provide a benchmark against which one can assess the brewing changes that lie in the emergence of a new Maoist order. Although the Maoists have declared that Nepal needs a ‘caste struggle’ in addition to a class struggle, they have also insisted that Nepal’s ‘culture’ can be a firm basis for economic and State restructuring. An ethnic pattern can already be identified within their urban organisations that deal both with the capitalists as well as the proletariat. These are expected to become increasingly formalised as the Maoists enter parliament and join the election for the constituent assembly that will officially spell out a new State order.

Embedded into the grand political, cultural and economic history is a series of micro developments occurring on the garment factory floors. This is the second theme running alongside the main one of politics and culture in this chapter. Unlike most of the conventional industries which would follow a natural pace of growth, the emergence of the ready-made garment industry in Nepal was rather abrupt and turbulent. I have shown that the formal economy of the factories was shaped not only from happenings within the national boundaries but those that originated thousands of miles away and were far beyond its control. American trade policies and the political economy surrounding them contributed to both origination and termination of the garment factories in Nepal. In fact, without the carefully engineered MFA quotas, Nepal had no comparative advantage in mass manufacturing readymade garments as was signified by the fact that there was no garment industry in Nepal prior to the MFA. The industry owed a lot not only to the governmental institutions, but also to grassroots-level institutions such as the GAN and the labour unions – a discussion I will pursue in Chapter 9. Finally, the developments on the factory floors – be it a rapid transformation from the *juwadi* system to a modern chain system, or the rapid migration from old to new machinery – were not outcomes only of linear policy changes but were often driven by a complex mix of local and global politics with distinct winners and losers.

The unique effect of economic liberalisation, which is closely associated with the hard politics of multi-party democracy, however, cannot be dismissed in the readymade garment industry. In fact, most of the radical changes in factory turnover, production function and industrial organisation occurred as a direct result of added transparency in business registration procedures, embrace of market deregulation and removal of trade

barriers. The early liberalisation widened the market and its scope which then led to cut throat competition that shrank profit margins and instigated a ruthless cycle of merger and acquisition. The material sophistication seen in terms of technology and organisational upgrade is an outcome of this process. The late liberalisation, which stands on the shoulders of early liberalisation, is marked by the dominance of niche producers over mass producers, which is a paradox but not counter logical.

I have highlighted the redistributive effects of the interweaving of economic, social and political processes that marked economic liberalisation and the subsequent growth of the garment industry. In fact, as the industry expanded and mechanised, the intersections of social and political effects emerged gradually. Especially among the niche producers, such effects were seen in the deeper intertwining of caste- ethnicity-derived cultural capital with the economic rationale on factory floors. The lucrative economic outcomes achieved by the niche producers had as much to do with capitalisation of their cultural knowledge and social networks, as with their overall managerial superiority.

The transformations in the modern garment industry as well as the consequential social changes among the new and old business entrepreneurs does not simply mean that local cultures are working for or against the garment economics. Nor does it mean that economic modernisation is working for or against the local cultures. In fact, one missing piece in the equation is the politics which formed the platform for both the rise of the garment industry and the demise that followed. The economics that evolved throughout reinforces the neoclassical ideas of ‘scarcity and hence competition,’ but falsifies both neoclassical claims of instrumental rationality and orientalist claims of exclusive cultural supremacy. Beyond all these, what is far more important is the overall process of substantial institutional change that simultaneously connected economics with culture, culture with politics, and politics with economics; and in that process, altered the original institutional framework. Not only did the caste/ethnicity-based power constellation form the basis for medieval (explicitly) and modern (implicitly) State institutions and alter the institutional framework that formed the platform for modern economic development, but this conundrum eventually gave rise to a counter-order not only embodied in the grand politics of Maoist insurgency but also in the micro politics of factory floors. The economics has, time and again, coped with the given sets of institutions which are neither wholly optimal nor suboptimal, but a ‘mixed bag’ (North, 1990b: 9). In this process, the norms of economic rationality have also influenced the existing institutional frameworks

of the time, only less deterministically than originally claimed by neoclassical economics.

## Chapter 3: A theoretical framework

Inspired by the Weberian thesis on the Protestant ethic (1958) and Parson's notion of cultural configuration (1951), a considerable literature on the links between culture and economic function, both under the formalist and substantivist schools of thought has grown up. It has been well established that actors do not behave as lonely agents outside a social context, nor do they adhere slavishly to 'a script written for them by the particular intersection of social categories that they happen to occupy' (Granovetter, 1985: 487). They interpret the world through their 'mental models' – or their accumulated knowledge, preferences and networks – which are in part culturally derived and are partly acquired through the history of their experiences (North, 1990b: 18). For these reasons, contrary to the neoclassical assumptions, it is perfectly possible for individuals to have diverse views on 'utility' and 'profits'. North (2005: 83) goes on to claim that what is seen as 'utility' or 'profit' is subject to the rational and non-rational constructs of economic ethnics, values, superstitions, and prejudices. His conclusion is that it is necessary to understand the history of a society before envisaging what types of economic actions might or might not take place there in future.

On what has been considered a middle ground between the 'over-' and 'under-socialised'<sup>26</sup> schools of thought on the connection between societal and economic institutions. Granovetter (1985) argues persuasively that agents' economic actions are embedded in concrete ongoing systems of social relations that are constructed and reconstructed during the flow of economic interactions. This view is reflected in the literature on institutions, including both the transactions-costs approach of Williamson (1981a) and the studies of industrial organisation such as those of Clegg and his colleagues (1990a). But questions remain on the significance of cultural factors in the economy. 'Culture' has long been a polysemic term in the social sciences. This chapter will attempt to problematise culture as a form of symbolic capital in a study of the interactions between economic and social institutions. The first section of this chapter will review literature under both new and old theories of institutions; Section 2 will place 'trust' in the institutional discourse; Section 3 will extend the two preceding themes into discussion of variation in industrial organisation; and Sections 4 and 5 will propose that

<sup>26</sup> Granovetter (1985) refers to Dennis Wrong (1961)'s complaint about the 'over-socialised' concept that people are overwhelmingly sensitive to the systems of social norms and values which is in contrast to the concept that actions and decisions are carried out in a narrow utilitarian pursuit of self-interest which Granovetter describes as the 'under-socialised' view of the person.

Bourdieu's theory on cultural capital could be a new dimension in the study of institutions within economic anthropology. This last statement is also the original contribution this thesis intends to make.

### **1. Is the 'new' institutional theory a premature departure from the 'old' institutional theory?**

Largely rooted in the North American tradition associated with the work of Thorstein Veblen and John R. Commons amongst others, the study of institutions sought to analyse societal and organisational constraints on, or reactions to, economic changes and innovations. This literature has recently received a new infusion in what has come to be known as New Institutional Economics (NIE). The starting point of both old and new institutional theories is that the neoclassical assumptions of 'full information among the economic entities in the market' and of 'zero transactions costs,' which are said collectively to lead to a scenario of perfect competition and thus a Walrasian general equilibrium, are both nonexistent (Coase, 1937). By attempting to incorporate the concepts of public/rational choice to establish the reasons for the existence of hierarchies within markets, early institutionalists such as Coase thus solved some longstanding puzzles within the neoclassical theory.

One neoclassical puzzle was that of the existence of the firm. If the series of economic transactions inevitably leads to a 'general equilibrium,' why do the economic entities involved not function individually? What makes them choose to collectivise themselves under the administrative and financial structures of corporate firms? Coase (1937) brought in the notion of transactions costs to solve this. When there are zero transactions costs, the efficient competitive solution of neoclassical economics is obtained because the competitive market structure leads the parties to an equilibrium where aggregate income is at its maximum regardless of the initial institutional arrangements. Coase, however, put forward the proposition that transactions are not always costless in the real world. They are the economic equivalent of 'friction' in physical systems (Arrow, 1969: 48 in Williamson, 1986:176). There are costs of using the price mechanism, which include the costs of obtaining transaction-relevant information, costs of negotiation and of concluding a separate contract, and the costs of monitoring and enforcing the contract *ex post*. When transactions costs rise, and possibilities of minimising them are absent, corporate institutions such as firms come into being.

The idea of transactions costs has come to be problematised not only in economics and sociology but also in legal studies. Neoclassical law had envisaged arbitration (as opposed to litigation) as a key factor in explaining increasing contractual duration and complexities (Macneil in Williamson, 1986: 104). New Institutional Economics (NIE) linked this legal problematisation to the institutional discourse by assigning transactions costs to governance structures (which are the institutional frameworks within which the integrity of a contractual relation is decided). The framework of transactions costs, notably Williamson's (1986: 104 and 177), showed the extent to which actors engage in to 'relational contracting' in their attempts to correct problems of bounded rationality (which precludes comprehensive planning), opportunism (which limits promise) and asset specificity (which limits the efficacy of competition).<sup>27</sup>

North (1990b) builds on the Coasean theorem on the institutional implications of transactions costs and extends it to challenge the second neoclassical assumption of 'instrumental rationality'. Contrary to the assumptions of rational-maximising self-seeking behaviour on which the neoclassical theory is grounded, North (1990b: 35) postulates that individuals possess mental models in which terms they interpret the world around them. Such mental frameworks that shape human interaction are culturally derived and are acquired through local experience and therefore vary widely across environments. North (1990b: Chapters 5, 6 and 7) says that mental models are made up of formal rules (statute law and common law regulations), informal constraints (conventions, norms of behaviour and self-regulations), and the effectiveness of their enforcement. Collectively, these give rise to the rules of the game, or the subjective motivations and deciphering of surroundings, which North equates to institutions. 'Organisations' are their complements, and include the players or groups of individuals bound by a common purpose to achieve objectives that are political, economic, social and educational in nature. Culturally derived mental models (or institutions) and the organisations derived from those, then, do not settle down to reach one general equilibrium as Walras had earlier claimed, but can aim for, give rise to and sustain, multiple equilibria.

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<sup>27</sup> Williamson's criticism of the neoclassical economists (one he specifically mentions is Baumol's 1982 contestability theory) has been on the grounds that they undermined asset-specificity and assumed that hit-and-run entry can indefinitely prevail, hence precluding any form of long-term rationality. The NIE transactions costs economics, by contrast, gives higher priority to the condition of asset-specificity suggesting that hit-and-run entry is often infeasible.

NIE successfully refutes the neoclassical claims that there is universality about economic development, from which economies are incapable of deviating. The strength of the NIE school of thought lies in its analysis of the micro foundations of economies and the dynamics of institutions. Its weakness however lies in its lopsided emphasis on the present anatomy of institutions, often at the cost of their past.<sup>28</sup> Further, an extension of the NIE studies actually goes on to introduce the ‘institution’ variable, not only qualitatively but also quantitatively, so as to permit mathematical analysis. This extension has been criticised as being too ‘static’ to be able to do justice to the intricate interdependencies among different institutions that it brings to the table (Stein, 1995).<sup>29</sup> To summarise, first, institutions are less instrumental than NIE scholars (especially its late-joining members) imagine in that informal institutions do not always leave a clear imprint on the formal institutions to be measured accurately. Second, adding ‘institutions’ as a stand-alone, add-on parameter is trivial at best and misleading at worst. Third, institutional studies desperately call for longitudinal studies, and this is an aspect to which NIE has not been able to do justice. To say that we must bring history back into the explanation is but the first step. ‘History’ is just another portmanteau concept which has to be unpacked, to make clear whether one is appealing to pure contingency, class power, or culturally formed expectations (Toye, 1995: 66). ‘Empty’ as a grand theory of socio-economic development, as Toye puts it, NIE’s departure from the old theory of institutions is, then, a rather premature one.

Harriss (2002b) has made a case for a return from NIE to old institutional economics or OIE, on two important parameters of the historical specificity, of: (i) politics, and (ii) culture. On politics, as Mushtaq Khan (1995: 71) showed us, failures of both the structure and transformation of institutions are indeed specific to their political histories. Khan might have been overly cautious in stating that recognising political differences might actually require abandoning the NIE approach altogether, but NIE’s limitations do require, as Bates (1995) also said, analyses to be embedded within the study of politics. Two case studies on economic institutions – a ‘grand’ socio-economic analysis of structural adjustment in Africa (Stein, 1995) and a ‘micro’ study of coffee trade in Brazil

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<sup>28</sup> Harriss (2002b: 12) notes that even for the analysis of micro-foundation of economics, the perspectives of NIE essentially complement insights derived from other approaches; they do not constitute a comprehensive, new framework.

<sup>29</sup> The distinction between the NIE and OIE are, however, not determinate: In fact, some of the institutionalists, including Douglass North amongst others, co-habit in both new and old institutional studies.

(Greenhill, 1995) – both signal the importance of in-depth historical analyses of the political context in understanding the institutions under examination. Detailed accounts of institutions given in both these case studies are comparable with Harriss' conclusions from his comparative research on the political regimes of Indian states (2002b), which shows that both the rampant failures as well as the emerging islands of success in the Hindi heartland of North India can only be explained through an historical analysis of politics and society. There is a strong basis on which to argue that static understandings of institutional structures and undertakings are inadequate.

The NIE is further limited as it sets out to problematise that polysemic term – ‘culture’. To borrow from Harriss (2002b: 8), culture is ‘the (historically specific) habits of thought and behaviour of a particular group of people,’ or ‘the ideas, values and symbols – more generally, “meanings” – in terms of which a particular group of people act’. NIE’s engagement with the problem of culture is no different from its engagement with the problem of politics, that it is exogenous to NIE: Culture is treated as ‘a residual in explanations for social change, or the lack of it, to account for what appears to be “irrational” (Harriss, 2002b: 9)’. In doing so, NIE misses out on the linkages of formal institutions such as legal rules and contracts with the informal institutions of motivations and deciphering of surroundings, which are necessarily embedded in deep, informal social strata.

At least on the two counts discussed above, the argument for return to the OIE approach in the analysis of economic change is well supported. The third count, only briefly to be mentioned here is that, contrary to the cautions expressed by North, later NIE studies are increasingly formalist and they have been excessively devoted to rational choice modelling. Even when the institutional accounts given in a number of NIE case studies actually show that institutions can be anything but economically efficient, the accounts of economic inefficiencies have gone under-reported in their conclusions (Clarence-Smith, 1995,<sup>30</sup> and Greenhill, 1995<sup>31</sup>). Such an over-emphasis on rationality has also translated

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<sup>30</sup> For example, Clarence-Smith (1995: 171) concludes that the global demise of cocoa estates after 1918 was a reminder that markets can effectively erode obstacles created by institutions and organisations. But this is not entirely substantiated, given the fact that the large-scale institutions were forced on to Asian and African colonies as ‘progress to benighted peoples’ even though there was plenty of evidence that smallholders were as competitive on the costs of labour, capital and quality (p. 162).

<sup>31</sup> Greenhill (1995: 197) quotes North in his conclusion that ‘institutions are set up to be efficient by reducing uncertainty in human exchange,’ but his account of valorisation (1995: 194) highlights that the costs of valorisation were enormous, forcing the federal authorities to raise huge loans in New

to an exaggerated focus on formal institutions, including those of property rights and legal measures, sometimes at the cost of the informal institutions that reflect what is 'local' (Haber, 2000). In this intellectual path selection, the early proponents of institutional studies either retain only marginal ownership of the development of NIE, or disown it altogether. For example, Douglass North (1995) falls neatly into neither old nor new schools but dwells in a constant tension between NIE formalism and awareness of its limitations, to cope with which, he borrows heavily from the old economic historiography. His new volume (2005) is a clear departure from NIE where he argues that markets, economic systems and political systems are all human-devised creations whose functioning is neither fully automatic nor objectively rational. For North, economic changes are deeply underpinned by broader and more complex attitudinal changes, which are incremental, path-specific and bear the constraints of the historical past.

In truly emancipating the institutional theory from neoclassical boundaries which are either narrow or irrelevant for the study of institutions, the criticism of OIE as being 'too descriptive' (Toye, 1995: 66) actually becomes residual in the strength of the substances it engages with. This last point, that there is a strong case for re-approaching OIE in the face of NIE's inadequacies, leads me to a discussion on various interlinkages between social configuration and economic exchanges. One important link between these two worlds is that of trust, which has been well explored by the scholars of various social science disciplines (Moore, 1997).

## 2. Trust

Is trust the missing factor that establishes the link between societies and economies, and does it explain why some societies progress more rapidly than others? Economic theorists acknowledge it as a transaction-cost-minimiser and a lubricant of economic activities (Arrow, 1974 in Bradach and Eccles, 1989: 282); institutionalists find in it a substantiation of the argument about the embeddedness of economic behaviour in social relations (Granovetter, 1985 and Platteau, 1994); and anthropologists invoke it to explain the role of culture in economic history (Hart, 1988; Parry *et al*, 1999). Francis Fukuyama's (1995) recent volume, though not strictly academic, helps renew the emphasis on trust as the cultural characteristic explaining a nation's well-being, as well

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York and Europe, its effect on world coffee supplies were even worse, and that it did not solve the problem of foreign participation in Brazil's coffee trade.

as its ability to compete. Although much of the literature presents trust in terms of norms that are shared by all actors, what it describes has more to do with the overlaps in self-interest of the actors engaged, which in turn, are often characterised by inequalities of power (Sayer, 2001). The analysis of the bases and functions of trust is what I intend to focus on in the subsequent paragraphs where I discuss how the definition of trust has been significantly refined over the past two decades.

Gambetta (1993) and Zucker (1986) played key roles in defining the bases and functions of trust. There is a tendency to confuse trust with generic coping mechanisms that compensate for uncertainty and lack of information. Gambetta clarifies that trust is not about speculating how the market might or might not behave in future, but it is the act of believing that when offered the chance, a partner to a transaction is unlikely to behave in a way that is damaging to the other. This definition of trust has to do with risk negotiations (Hart, 1988) as well as incentives and reinforcing mechanisms (Moore, 1999). Zucker (1986) conceptualises that trust can be based on, and thus finds its sources in: (i) processes – ‘past or expected exchange such as in reputation or gift-exchange,’ (ii) characteristics – ‘personality, family background or ethnicity,’ and (iii) institutions – ‘formal societal or economic structures’. This concept benefits methodologically from two further distinctions added by Moore (1999). Trust could well be derived either from the specific (i.e. relying on a specific third-party experience of the other) or generic (i.e. reputational) ‘character assessment’ or from the ‘incentive assessment’ based on positive and negative incentives in the act of trusting. These incentives sometimes include formal institutionalised sanctions such as laws and regulations as well as informal sanctions such as private arbitration. They also include various forms of social mediation as well as the use of Mafia as mutually agreed enforcement agents. Other incentives include the interdependence of activities such that individual actors are dependent on each other for pursuit of a common self-interest. Yet other incentives might involve reputational jeopardy, direct retaliation or non-cooperation.

The ‘trust’ debate is not so much about its definition and origin as about its reproduction, and the frontiers here are fast-moving. There is no case for arguing that all character- and process-based trust are good for business, nor for inferring that they need to be dismantled for efficiency and development. The formalist proposition that economic systems are transformed through replacement of character-based trust by a ‘proliferation of formal production of (institutions-based or generalised) trust’ (Zucker, 1986: 100;

Hirschman, 1982; Haddad, 2003) has been challenged mainly on three fronts. The institutionalists argue that character- and process-based trust could be as efficient lubricants of economic exchange as institution-based trust (Arrow, 1951). The trust theorists also emphasise that trust is not something that prevails uniformly across the whole society as formalists tended to believe, but that it is context-specific (Moore, 1999; Humphrey and Schmitz, 1996).<sup>32</sup> A wide range of ethnographic accounts as well as broader social science studies make the case for eclecticism in any analysis of the way trust affects capitalism. Moore goes on to emphasise that trust could either be character-specific or incentive-derived, depending on: (i) the relative strengths of formal and informal institutions in societies, and (ii) the economic opportunities and challenges that the societies are exposed to. The current debate is more on the difference between *when* character- and process-based trust lubricate economic exchanges and minimise transactions costs, and *when* do they become redundant or counterproductive so as to require State-interventions for formalisation of trust?

Successful Ghanaian businessmen were those who rid themselves of kin networks because losses through unpaid debts were frequent (Garlick, 1971). In contrast, Kenyan businessmen refrained from substituting family and social links with non-family links because of the lack of personalised trust outside families deemed necessary for business entrepreneurship (Marris and Somerset, 1971). The South Asian discourse on trust focuses on its relevance, or lack thereof, to the economic exchange in question. Timberg (1978)<sup>33</sup> and Rudner (1989)<sup>34</sup> propose that the trust inherent in the informal institutions of joint family and caste loyalties are the secrets of success in Indian entrepreneurship. One has to remember however that these stories are only partly about trust, at least from a strictly transactional point of view. Both cases are stories of deep embeddedness of motivations and deciphering of surrounding business relations: the way in which trust not only lubricates economic interactions but also facilitates deeper insights into the nature and structure of goods and services that these social groups offer. Both in Nepal and in India, a large number of Marwari businessmen have been textile traders for several generations, and their narrow radius of trust not only facilitates their textile transactions, but also deepens their knowledge of production and helps guard their business secrets.

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<sup>32</sup> For example, Humphrey and Schmitz (1996) deal mostly with trust in inter-firm relations, and in their view, trust within economic organisations and trust within other domains of social interaction should be treated as different issues.

<sup>33</sup> Study of Marwaris who are the leading caste entrepreneurs from North India.

<sup>34</sup> Study of Nattukottai Chettiar, who are one of the leading castes of financial service providers from South India.

Zivetz (1992) rightly singles out the business case of the strong Marwari network when she calls for the replacement of the ethnic/familial compartmentalisation of business practices in Nepal with formal, institutionally-derived trust. Quigley (1985a) states that the narrow radius of kin and caste-based trust among the semi-urban Dhulikhel Shresthas, inhabitants of the suburbs of the Kathmandu Valley, restrains them from adapting to the emerging changes in the market so as to be able to engage in high-risk entrepreneurial activities.

The argument on trust as a lubricant is also true for the Chettiar financiers of South India (Rudner, 1989). They had earlier been misunderstood to be small-scale finance operators, when in fact they are producers of a sophisticated financial package, of which an individual Chettiar is only a tiny component. In this occupational collectivisation, their kin are actually the production components of the financial services that they offer to the market. In this sense, their trust networks add significant value to their business activities regardless of the circumference of the trust circle. Papanek's (1972) call for modernisation of selected features of networking among the Memons of Pakistan; Harriss' (2002b) argument about the State's role in widening of the 'radius of trust' in India; and Zivetz (1992)'s case for deepening of trust among some ethnic groups in Nepal and widening of trust among others – all support the case that trust needs to be studied with emphasis on the analysis of local contexts – economic as much as social.

Since the role trust has come to play is a diversified one in various societies, there is a case for arguing that divergent trust patterns give rise to divergent economic characteristics, which in turn feed in to the social structures that had given rise to the divergent trust patterns in the first instance. Fukuyama is right when he argues that the nature of the traditional institutions, on which trust is based, has had a direct bearing on the architectures of exchange, production and market in Asia and in the United States. Fukuyama believes that America is capitalising on the strong institutions that endorse individual rights in the same way that it does on its physical capital through low savings rates. He draws on the metaphor of the emblemised eagles to denote among the Americans a unique combination of strong individualism with tendencies for a high degree of spontaneous sociability and willingness to remain under the umbrellas of large organisations. The result has been a society which puts strong emphasis on individualism but which is also capable of instigating a rise of large-scale producers, distributors and service-providers. In contrast, Asian societies have relied more on

family values. Among various Asian societies, however, family values differ, and they have produced differing results over time.

In the case of China, the question as to why intermediate organisations do not feature as prominently in economy and society as they do in western societies, has to do with the great emphasis Chinese society puts on family organisation. Centuries of political instability resulted in the fact that family is the only reliable means of support. The principles of Confucianism encourage obedience to the father figure, faith in large families in which the inheritance is divided equally among the sons regardless of their merits and a general distrust for strangers. Consequently, a family-run business seldom grows or lasts beyond a single generation because of the inevitable feuding among the heirs and a reluctance to bring in outside professional managers.<sup>35</sup> There are few Chinese brand names because small and transient firms are usually incapable of developing the necessary economies of scale and scope in marketing. In the case of Japan, Fukuyama attributes inter-firm alliances such as Keiretsu to hierarchical and paternalistic but merit-based family values. What is important to note is that the Japanese *mukoyoshi* system of child adoption allows industrialists to broaden their skill base as per their business needs, and thus maintain organisational cohesiveness as strong as that of a block of granite.

Inherent differences in traditional institutions related to trust largely explain the divergent economic characteristics of these societies. I draw three conclusions from this discussion on trust and from a broader discussion on institutions (see Sections 1 and 2). The institutional literature allows us to state, first, that institutions emerge when transactions costs are significant; and second, that the neoclassical assumption of instrumental rationality of institutions is replaced by an understanding that motives are society-specific and these pave the way for divergent economic goals and trajectories. Third, the premise of trust derives some substance from both these statements: it is one of the key societal constituents that contributes to reducing transactions costs (lubricating economic exchange); and it does not necessarily evolve in accordance according to the neoclassical rationality pattern. With these two statements in mind, I try to construct my third building block – the divergence that exists in structuring of industrial organisation across

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<sup>35</sup> Fukuyama talks about a ‘Buddenbrooks’ phenomenon – a term borrowed from Thomas Mann’s acclaimed novel about a German family – to describe the gradual decline in entrepreneurial talent from the first generation to the third.

societies. This explores a different aspect of the social embeddedness of economic action.

### **3. Industrial organisation within the study of institutions**

If institutions are the underlying rules of the game in the economic order, organisations are the players or the agents of action. Organisational studies have borrowed from Coase and Williamson to show that industrial bureaucracies such as firms and corporations and social hierarchies such as class and caste are embedded within markets. The institutions affect economic engineering at two levels: (i) at a macro level – in explaining the institutional underpinnings in the evolution of divergent capitalist systems across societies; and (ii) at a micro level – in explaining the role of institutions in leadership, ethics and structures within and between firms.

Economic and business historians have identified broad changes in the forms of capitalism across societies since the industrial revolution. Drucker (1972) proposed ‘Taylorism’ (or ‘scientific management’ as defined in Taylor, 1947) as a notable form of capitalism, where large managerial bureaucracies matched specialised machineries with semi-skilled workers to start large-scale production. Chandler (1977) proposed the American ‘competitive managerial capitalism’ (or Fordism as defined in Boyer *et al*, 1997) as the rising universal trend, where multi-layered organisation of management units gave rise to large corporations where tasks were broken down to their simplest forms, improved upon and then replicated at a mass level. While there are no doubts about the early-twentieth-century victory of mass over craft production in the US, what remains unanswered is the question of why a similar trend has not developed in other countries. After cautiously disentangling the macro- and micro-level economic orders in the context of American economic crises, Piore and Sabel (1984) examine an alternative view as to whether or not the American adherence to mass production might have been more of a historical accident than a destiny worthy of being prescribed globally as the natural path to economic success. They conclude that Fordism or mass production is inadequate in explaining the rise of divergent capitalism across the globe. They suggest that ‘flexible specialisation,’ or a craft alternative to mass production involving a loose network of independent producers in place of large-scale producers, exists and accounts for inconsistencies in classical economic forecasts about mass manufacturing as the ultimate universal solution.

Fordist and Taylorist claims about the supremacy of mass production have indeed been falsified by the rise of the various forms of capitalisms both across the Atlantic and the Pacific. Proprietary capitalism, which has stabilised in Europe and the UK since the nineteenth century, is structurally different from its American counterpart in that unlike the large mass-producing firms, European industry is organised around loose groups of vertically and horizontally specialised firms, which coordinate their inputs and outputs through largely short-term market contracting (Lazonick and West, 1998; Hollingsworth, 1997; Sorge, 1991). Across the Pacific, in East Asian ‘collective capitalism’ firms collaborate on a long-term basis and thus loyalty and commitment dominate intra- and inter-firm coordination (Hamilton and Biggart, 1988; Orru et al 1989, 1991; Whitley, 1992). Within Europe, Maurice (1979) has discussed the national variations found across sectorally and technologically comparable firms in Germany, France and Britain, which he attributes to locality-specific ‘societal effects’. Within East Asia, Tam (1990) has contrasted the Japanese ‘centripetal’ industrial configuration (where individuals and firms maintain long term loyalties towards the industrial clusters they are affiliated with) with the Chinese ‘centrifugal’ configuration (where individual and firm alliances are temporal and frequently shifting).<sup>36</sup> In the end, some elements of American capitalism, such as the American direct selling organisations capitalising on the personal charisma of the seller, proved ineffective in Europe, while it resonated harmoniously in the Asian context of extended familism and social networks within a vigorous capitalism (Biggart, 1990).

These rather diffuse contrasts and characterisations of the forms of capitalisms across societies necessitate more detailed and systematic studies of the processes by which particular industrial configurations evolve from and contribute to societal differences. Williamson’s (1986) ‘contractual’ approach, focusing on transactions costs economics to explain such differences in path-specificity, has long been considered inadequate, and various dimensions have been added to it, including one that focuses on networks (Ebers, 1997; Orru, 1997) and the ground rules for acceptable practice (Herrigel, 1994). The organisational dimension that the current section of this chapter discusses is one of the most recent developments in this literature, which postulates the linkages between societal and industrial structures more substantially. In this thesis, I have specifically looked at two of the threads within this literature. The first thread examines how

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<sup>36</sup> It resonates with Fukuyama (1995)’s interpretation of Japan as a ‘block of granite’ and China ‘a loose tray of sand’.

synchronously or conflictually the major economic groupings within the society – the public bureaucracy, management, labour and political parties – draw on their broader national industrial culture (Wilks, 1990: 150). The second studies the extent to which liberal capitalism is allowed by the State to deepen, and the degree to which economic efficiency is compromised by the State in order to pursue goals that are strictly political or social (Clegg *et al*, 1990b: 71).

It is not only that the way industrial relations are embedded into social relations differs across societies; but the nature of the embeddedness also changes as societal and industrial institutions undergo readjustments over time. Marsh and Mannari (1990) have called this a temporal continuum, which forces industrial units to undergo internal modification in order to accommodate changes in technology, size and labour productivity as well as external adaptations to forces such as political and global industrial transformations. Others have looked more closely into the societal institutions which are also constantly contested and thus are continually changing under a path-dependent trajectory (Hollingsworth, 1997; Clegg *et al*, 1990a). The theory of path dependency overturns the idea of instrumentalism and highlights five key features in society-industry embeddedness: first, industrial coordination systems must adapt to exogenous market changes such as that of new competition which arises with changes in technology and in consumer tastes (Best, 1990); second, economic coordination mechanisms are guided by changes in politico-economic regulations and labour-market institutions; third, industrial organisations draw directly from the evolving informal societal institutions, for example, patrimonial authority, trust, the nature of the State elite and the inheritance system; fourth, emulation across societies is possible but has temporal and contextual constraints (Wilkinson and Oliver, 1990); and fifth, ongoing relational networks between large and small economic and social entities within a society are important in determining the overall industrial configuration in the long run (Marceau, 1990; Bourdieu, 1984).

Whitley's conceptualisation of a 'comparative-business-systems approach' (1999) is the most comprehensive framework available in the literature for anatomising economic organisations and their interconnectedness with market economies and the political, labour and cultural systems. The core of the CBS approach is the comparison of business systems across societies on the four important fronts of: capital providers and users; consumers and suppliers; competitors and alliances; and employers and

employees. Whitley then places business systems into the broader institutional structuring, which includes not only State economic policies and the political economy of labour unions but also the financial and educational frameworks within which the society functions, in order to examine the interdependences between them in the changing global context. His account of the capitalisms of Korea, Taiwan and Japan highlights to what extent the contemporary capitalisms in these countries, as distinct from each other as they may be, draw on similar social institutions of trust, loyalty and knowledge transfer as much as on their political histories of war and the bureaucratic arrangements for power sharing between the State and industrial groups.

To sum up, I have tried to focus the readers' attention on issues surrounding conceptions of institutional variation related to the sphere of economic action and organisation. These concern differing relational networks, industrial frameworks and social and political platforms. Industrial evolution is path-specific but path-specificity need not make for inertia since evolution is an ongoing process that will involve adaptation not only to new market competition but also to changes in politics, labour and production economics, as well as gradual societal transformations. Whitley's CBS approach gives us a comprehensive framework for anatomising this temporal continuum. In the following section, I will look at the society-specificity and path-dependency of industrial organisation from a prism of the embedding of economic action in culture.

#### **4. Bourdieu and cultural capital**

In the same way that organisational patterns, which are underpinned by motivations, deciphering of their surroundings on the part of individual actors, and the patterns of trust are specific to the histories of different societies, as shown in the earlier sections, so is the culture, embodying the habits of thoughts and practice of a particular people. Using Bourdieu's concept of 'cultural capital,' this section will aim to define the culture-economy embeddedness as societies proceed towards economic modernisation.

Before engaging with the term 'cultural capital,' one has to acknowledge that the word culture itself is undoubtedly one of the most widely and diversely explored terms in the history of social sciences. As early as in 1871, Tyler defined 'primitive culture' to be 'that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities and habits acquired by man as the member of society' – a definition that largely remains valid to date. In the context of social change, it has been agreed that

culture is neither a mere add-on, nor an assumption in the utility function.<sup>37</sup> Nor does culture denote an exotic parallel universe to the mainstream development discourse that needs to be conserved from degradation<sup>38</sup>, a set of immutable and essential national traits that can be invoked to explain economic retardation in some countries<sup>39</sup> or a ‘best practice’ that is identified from one society to be replicated to another.<sup>40</sup>

Several suffixes have been added to the culture discourse throughout the last century, as evident in the proposition of the concept of culture-derived economic ethics (Weber, 1958), cultural configuration (Parsons and Shils, 1951), cultural embeddedness (Granovetter and Swedberg, 1992), etc. On these scholarly shoulders stand many studies that are scattered across the disciplines of business studies, economics, sociology and anthropology.

‘Culture’ highlights the society-specificity of motivations and deciphering, and hence its path-dependence; and by adding the suffix ‘capital,’ Bourdieu brings the idea into an economic paradigm. Bourdieu’s definition of ‘cultural capital’ stands on twin pillars. The first pillar is his conceptualisation of the term itself, where he extends the logic of economic analysis to ostensibly non-economic forms of power and courses of action. For him, all forms of power – be they material, cultural, social or symbolic – are forms of capital which can be invested and also harvested at different times. Tracing the sources of cultural capital in a wide variety of institutions such as verbal and behavioural facilities, aesthetic preferences, education credentials, etc, Bourdieu distinguishes between three specific states that cultural capital may take. It might exist in an ‘embodied’ state which requires pedagogical action, or the investment of time by parents, kin and the hired educational institutions for cultivated dispositions presupposing distance from economic necessity. Or, it might exist in the ‘objectified’ state such as in books, art objects and scientific instruments that require specialised cultural abilities for their use. Or, it might exist in an ‘institutionalised’ form attained and reproduced through the educational credential system. This is a short version of Bourdieu’s complex conceptualisation of cultural capital, which forms one of the twin pillars of his theory. Before we touch upon the second pillar, it is important to address one key criticism Bourdieu faces from contemporary sociologists.

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<sup>37</sup> Unlike the claim made by Becker and Murphy (2001)

<sup>38</sup> Unlike the claim made by Scott (1998)

<sup>39</sup> Unlike the argument theorised in Harrison and Huntington (2001) and narrated in Landes (1999)

<sup>40</sup> Unlike the claim made by Inglehart (1990)

Is Bourdieu an economic determinist in a neoclassical, or even a late new institutionalist fashion? Caille's criticism of Bourdieu on this key question (1992 in Swartz, 1997: 68-69) is representative of many others, and is well grounded in that by extending the logic of economics to virtually all aspects of culture, Bourdieu makes little attempt to delineate what part of social actions can be explained by rational calculation and what part cannot. Caille notes that Bourdieu cannot be placed alongside most Althusserians because he disagrees that any ideology can assume relative autonomy from economy and politics. He, in turn, criticises Bourdieu for implicitly formulating an anthropology that posits a fundamental human propensity towards economic rationality. This is ironic in that Bourdieu himself has always been a sharp critic of economism, a point that becomes clearer as he takes a historical view of cultural capital. Bourdieu's concept of 'interest,' which he uses to justify all human action sets him apart from the Althusserian Marxists who believe that some human motives are above rationality; and his interpretation of interests as dispositional as opposed to instrumental brings him conceptually closer to North – a point I will pursue later in this chapter.

How cultural capital regenerates over time is a discussion that forms the second pillar of Bourdieu's discourse. Tracing back the three states in which cultural capital exists, Bourdieu argues that it is the conversion of 'embodied' capital into 'objectified' and 'institutionalised' forms of cultural capital which is essential for them to influence the play of interests – interests that are not static but dispositional. He states that the process of conversion from symbolic to economic capital is not strictly utility-enhancing as transmission within the economic capital is, but requires a gratuitous expenditure of time, attention, care and concern, which makes the conversion possible only through a complex web of social obligations. For example, compared to the world of material objects, the world of art appears to be an island ostentatiously opposed to that of immediate economic calculations of losses and profits; and acquiring of artistic skills takes years of dedicated learning without immediate returns. Conversion of the symbolic capital of arts into economic capital ultimately does take place, but only through complex negotiations among the actors located at differing positions of the social structure, and at a pace different to exploitation of capitals that are already material. This is a key point Bourdieu makes. If we are to add to this the institutionalist assertion that social structures have their rigidities, which do change over time but only slowly and with resistance, then such a conversion process would be path-specific, at least in the short

run. This is the gist of my discussion on why I argue cultural capital is important in a discussion of economic institutions. I will explain it further in the following paragraphs.

‘Habitus’<sup>41</sup> is a key expression in Bourdieu’s discourse on reproduction of cultural capital. Although expressed frequently in a linguistic analogy,<sup>42</sup> it is a much broader concept, and includes a whole range of values, ethics and preferences beyond exploitable knowledge and skills from which economic returns might be derived. Habitus is not an innate capacity, it is a ‘structured structure’ that derives from the class-specific fundamental ‘dispositions’ that are internalised through early socialisation in family and peer groups.<sup>43</sup> Since primary socialisation is more formative of internal dispositions than subsequent socialisation experiences, habitus is fairly resistant to change. There is an ongoing adaptation process that occurs as habitus encounters new situations, but this process tends to be a slow and largely unconscious one, which Bourdieu calls ‘defensive strategy’.

While habitus concerns individual agency, Bourdieu’s second key expression – ‘field’ – defines the structure of the collective social setting in which habitus operates, thereby unifying the individual-society dualism. It is a spatial metaphor, which Bourdieu uses interchangeably with a neoclassical term ‘market’. However, contrary to the neoclassical use of the term, which is limited to exchange relations between commodity buyers and sellers, Bourdieu’s idea of ‘field’ includes hierarchies in addition to the exchange relations within this symbolic space. Also, contrary to the neoclassical claim of equilibrium which is an optimum state where struggles cease, the boundaries around and between fields are imprecise and constantly changing. Fields impose on actors-specific forms of struggle, which centre on various forms of capital, economic, cultural or symbolic. It is important to note that fields are ‘structured spaces’ where dominance or subordination stems not from innate characteristics but from unequal distributions of capital and is sustained through various struggles. Bourdieu specifically talks about three types of field struggles: conservation, succession and subversion. Those who hold

<sup>41</sup> Before employing the term ‘habitus,’ Bourdieu used a series of other terms to designate his key concept, including ‘structured praxis,’ ‘mental habit,’ and ‘generative principle of regulated improvisations’ in his earlier work.

<sup>42</sup> Bourdieu’s conceptualisation of habitus drew largely from Saussure’s (1974) distinction between speech and language, and the theorising stemmed from his fieldwork on the educational attainment of school children (Swartz, 1997).

<sup>43</sup> Swartz (1997: 104) has argued that habitus is similar to Weber’s concept of ‘life chances,’ which are “objective structures internalised into corresponding dispositions leading group members to experience them as reasonable or unreasonable, likely or unlikely, natural or unthinkable for people of their own kind.”

dominant positions in a field employ conservation strategies; those who have less or no seniority may attempt to access dominant positions through succession strategies; and those who challenge the definitions of legitimacy established or enforced by the dominant group, engage in subversion. It is then important to note that there is a tacit agreement between the dominant and the dominated throughout the field struggle that the struggle is worth pursuing. Bourdieu calls this process ‘symbolic violence’ – or a struggle between two parties about superiority of practice. It is symbolic because of the capacity of the process to ensure that the arbitrariness of the social order is ignored, or misrecognised as natural, by both sides engaged in the field struggle.

To sum up, habitus varies for individuals, and makes them more or less powerful in the field at a given time and context. In a spectrum ranging between the economic (subordinate) and cultural (superior), capitals at the disposal of individuals may lie towards one end or the other. Individual and group interactions for acquisition of any kind of capital are guided by the field strategies of conservation, succession or subversion. These struggles undergo renewal processes in the form of symbolic violence which embodies both tacit acceptance and contestation of the hierarchy and distinction between the parties involved. What this process eventually gives rise to is a reconsolidation of the social order, which is not a one-time incident but a continuous process of change. With it emerge renewed representations of cultures that have undergone a process of ‘mimesis’, through which the dominated accept the dominant as a point of reference both for change and for continuity.

Ortner (1999) has used Bourdieu’s discourse to deliver a compelling historical ethnography of mountaineering in Nepal that documents and analyses the process of social reconfiguration of order between the Sherpas (the native mountain porters) and the Sahibs (the European mountaineers). The Sahibs think of the Sherpas as unspoiled, naïve and loyal servants but they also know that the Sherpas carry, climb and manage their own organisation thrifitly. The Sherpas think of the Sahibs as benevolent guardian figures but also quintessential dominators. Ortner shows how history in the high mountains is relational and representational, configured and periodised. The actors are animated by identities that evolve through deeper contradictions inherent in social and economic structures. She also shows how identities are determined and path-specific but at the same time practiced as sources of transforming agency. Ortner (1999: 58) calls this process ‘counterculture,’ where individuals subtly modify their norms, practices and

values as they are alluded to by the dominant who remains the point of reference. In Ortner's view, what we think of as the culture today has emerged through a process of both distortions and truths in which the dominated members of the society have sought to obtain personal, social and economic traits as per the desires of the more dominant members within their social ambit. Thanks to such hegemony, what has emerged among the societies today is a 'virtual' culture that is like the original culture they used to have before they came under exogenous and endogenous socio-economic changes, but which is now significantly improvised. The process of counterculture is not necessarily rationalisation of culture, but a process of mutually agreed improvisation called upon by the dominant and the dominated parties involved, or a mid point between 'illusion' and 'allusion'.

##### **5. Can we compare Bourdieu with North?**

Bourdieu's concept of cultural capital has some similarities with North's theory of institutions, and in a number of ways, the former complements the latter. How economic actions are embedded in the norms and networks of the social order is an interesting topic with a commendable breadth of scope which indicates some opportunities for greater crossover between the boundaries of the two disciplines of economics and sociology.

To begin with, there is a resonance between Bourdieu's and North's criticisms of Althusserian Marxism. Bourdieu (1984: 467) rejects the Althusserian idea that ideological actions in societies can be compartmentalised and kept totally autonomous from economic actions. By declining the articulation of the Marxist base-structure dichotomy,<sup>44</sup> Bourdieu extends his argument that the two realms of ideological and economic actions should not be separated in the first place. Instead, Bourdieu brings in the concept of cultural capital, which covers a much broader spectrum of cultural and economic capitals, and which constitutes complex conditions under which one form of capital is convertible to another. His notion of cultural capital directly combines the material and symbolic dimensions and thereby emphasises the fundamental unity of economic and social lives. North (2005: 83) also subscribes to such unification and rejects any differentiation between economic and social structures. The premise of his

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<sup>44</sup> Marx used this metaphor to explain the idea that the superstructure (or the non-material structures of culture, religion and philosophy) arises on the surface of the base (or the economic structure of factor elements such as land, raw materials, capital and labour). Marx argued that the two must always be understood in relation to the other, and he treated the two as dichotomous and dialectically related but not the same.

‘formal and informal institutions’<sup>45</sup> are presented as the ‘scaffolds’ that human beings erect around them in order to facilitate deciphering of their environments and to reduce uncertainties around them. These scaffolds are an inextricable blend of rational (material artefacts and instruments) and non-rational beliefs (superstitions, religions, myths and prejudices), which collectively shape the choices that people make.

The criticism of the Althusserian compartmentalisation between what is purely economic and what is purely cultural leads both Bourdieu and North to make two propositions: first, that pursuit of interests universally underpins all human actions including what had earlier been segregated as the ‘superstructure’ or the symbolic, and second that configurations are continually contested and are changing. In the case of Bourdieu, it is the study of how, and under what conditions, individuals and groups employ strategies of economism in order to maintain or enhance their positions in the social order. Bourdieu explains that his use of the economic language of interest as a conceptual strategy is deliberately designed to correct for Marxist treatment of idealism as dialectically related but separate from materialism. Bourdieu’s concept of symbolic violence forms a basis for explaining both economic and social changes because it directs attention to structural forces through which individuals struggle to retain their personal status-quo but also adapt to the external forces for change. These forces consist of habitus, i.e., a culture-derived mental habit that structures individual perceptions and actions, and field, meaning a social order that is organised around specific combinations of various forms of capitals. For Bourdieu, economies and societies are constantly changing and each transition marks an increased reliance on the modification of the habitus and the field. Similar notions of change and pursuit of interests are central to North’s concept of institutions. He begins his 1990 book by stating that there is little reason to expect that economic changes are confined within the profit-seeking domain, but that they mark overall human evolution. He argues that institutions are the rules of the game which give rise to society-specific incentive structures. For North, institutions can be either formal which are relatively concrete, or informal which cover the broader arena of culture, history and politics. He claims that the two types of institutions are inextricably intertwined, and that together they form the enforcing mechanisms for any transaction. Individuals engage in transactions for pursuit of interests but are closely guided by their mental models which evolve through physical environment, the socio-cultural environment and their history of experiences.

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<sup>45</sup> See earlier section of this chapter.

Bourdieu and North are both centrally concerned with interests, but they both criticise the neoclassical theories for being static and for maintaining that the concept of rationality or interests are universal and objective. While neoclassical economists cast all interests in the same mould and follow the interest-consistency approach, both Bourdieu and North problematise interest as context- and actor-specific. Bourdieu uses the concept of interest not as a single and rigid phenomenon but as a disposition that motivates action towards consequences that matter to the actor. There can be as many interests as there are competing claims on the valued capital. While interests are to some extent based on human nature, they are only acknowledged and negotiated in the context of the social order. This notion is also central to the argument that North makes: he criticises the neoclassical notion of instrumental rationality in human action while accepting the neoclassical assumption that resources are scarce and hence that there will be struggles over them. North emphasises two additional dimensions to neoclassical economics: first, the problem humans face in interpreting the world with its multitude of facts; and second, the difficult conceptual problem of sorting the importance of different sets of facts and calculating an optimal position. North argues that the scaffolds formed by individuals to interpret the world around them are partly a result of their collective cultural history, partly of the everyday problems they confront and must solve, and partly of their past track record of problem-solving. Any action they take is typically incremental and path dependent. In this situation, perceived incentives obviously vary not only across societies but also within them. Within a given society, individuals from different backgrounds will interpret the same evidence differently, and in consequence, set different priorities based on the incentive structures they define for themselves. Bourdieu and North both contend that rationalities are not instrumental but subjective and culture-derived, and that multiple equilibria – as opposed to the neoclassical concept of general equilibrium – are possible and prevalent.

Beyond these conceptual commonalities, there are a number of intellectual problems one must acknowledge before bringing Bourdieu's theory together with North's. Some of the major obstacles holding back interdisciplinary work between Bourdieu and North are largely the presentational differences that dominate each discourse. North (1990b) approaches institutions from a perspective of transactions costs. He starts out by claiming that the institutional matrix moderates the degree of economism in exchanges where transactions costs are significant. However, his emphasis on transactions costs is substantially reduced as he proceeds to the main thrust of his arguments in 2005, which

is that the interaction of beliefs, institutions and organisations makes path dependence a fundamental factor in the continuity of a society. But, path dependence is not a transactional inertia for him, rather it is only a constraint on the choices available to a society. His framework on institutional change acknowledges a degree of conflict inherent in societies, and at a different level from Bourdieu's. His emphasis is on accretion of knowledge, which he says evolves from the interactions between genetic features, cultural heritage and experiences of individuals. His renewed emphasis on the role of knowledge and of path dependence in the process of economic change in his 2005 volume is an important departure from his earlier focus on transactions costs economics, and brings him yet closer to Bourdieu's world.

Another disciplinary obstacle between Bourdieu and North involves taxonomy. Bourdieu has especially cautioned that his image of 'field,' or 'market' which he sometimes uses interchangeably, is conceptually superior to the usage of these terms in neoclassical economics. Bourdieu uses the term field to represent the structure of some part of society where institutionalisation of practices is inevitably weak. For Bourdieu, each field is centred on a specific interest, which is constrained by vague and contested boundaries (e.g. field of art, an industry, a firm, and so on). He is cautious that any attempt to establish precise boundaries between fields, along the lines of organisational preferences (e.g., legal, economic, etc) are formalist and hinder a more compelling 'relational' view of the social world. He clearly differentiates himself from the taxonomy that uses field as an organisational concept as in DiMaggio and Powell (1991: 64). For similar fears of positivism, Bourdieu argues that the idea of field is superior to that of institution (1991: 19 in Swartz, 1997: 120). Having said that, Bourdieu's cautions are not cast in stone, nor do they apply uniformly to all the diverse variants of the institutional theory. Bourdieu argues that field struggles require a tacit acceptance of the rules of the game in the same way that opposing players in a sports arena pursue the same rewards and follow the same rules while competing against each other.<sup>46</sup> In this, Bourdieu's field analysis actually calls attention to North's discussion about the institutional aspects of individual and group action.

While Bourdieu's is the most comprehensive theory on economic and social change after the Parsonian theory on cultural configurations, a number of new empirical studies have

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<sup>46</sup> Bourdieu uses the term 'illuso' to describe a belief or acceptance of the worth of the game of the field which is shared among not only the key actors but also all others directly or indirectly involved in the field struggle.

pointed out some inadequacies in his framework in addressing the complexities emerging throughout rapid globalisation. For example, Bourdieu writes that it is the emulation of elites by the petty bourgeoisie within a given society, which generates the renewed forces that maintain constant demand for symbolic goods, and which ensures the continued renewal of symbolic violence. Bourdieu does say that systemic changes to the societal habitus and fields can be brought about by exogenous changes such as mass migration or radical communicational integration, but he says so only in the context of educational changes and not in the context of economic and political changes. This theory of class emulation is less anticipatory of the wholesale transformations the world was to witness as a result of rapid global integration. With the rise of multinational capitalism, as seen in international franchising and distribution models, the relations of power in production become indirect. Increasingly, workers are subordinated to capitalists residing in distant cities who exert their influence through impersonal and often virtual exchanges of labour power for wages. Such systematic changes necessitate a revised model of field study which problematises the fact that social emulations are no longer needed for the demand for cultural capital to increase.

Gartman (1991 and 2002) argues that while Bourdieu's theory remains valid for class culture, it has only little relevance for mass culture, which is no longer confined to the working class, at least in the industrialised countries. In mass culture, as he shows from his case study of the American automobile industry, there is a large overlap between the suppliers, producers and consumers of the cultural goods and those of the functional. The differentiation between the two is no longer about the admiration for 'freedom' or 'aesthetics,' but is simply a demonstration effect and the functional comfort dependent on disposable income. The idea of a mass culture that obscures class differences is a powerful tool for understanding the role of culture in late capitalism, and may be conceptualised as a complement to Bourdieu's conception of class symbolisation.

Earlier I contended that North's theory on institutions has more conceptual similarities with Bourdieu's sociological theory of action than with any other work from within his own genre of economics. North argues that the mental models of social actors are fundamentally important in understanding how they subjectively perceive a given environment. He acknowledges and reiterates that while the rationality assumption has served economists well for a range of analyses of human action amidst uncertainties, the instrumental perception of rationality has been a major stumbling block in the path of

social science progress. He then makes the case for the role of implicit mental models that evolve through a combination of genetic predispositions and cultural imperatives in modelling ‘reality’ for deciphering the environment and determining course of action. In his discussion of the scaffolds as erected by social actors, North argues that perceptions are individual, and how they get translated into transforming the human environment are consequences of the institutional structure, which is a combination of formal rules, informal constraints and their enforcement characteristics.

The last two statements on mental models and institutional structures bring North very close to Bourdieu’s argument on cultural capital. Bourdieu’s cultural capital is a combination of economic and symbolic resources, a concept through which Bourdieu extends the notion of interests to ostensibly non-economic areas. His field analysis, which is about the sets of relations within societies including class structures, provides an attractive structural mapping of arenas of struggle. It offers an insightful way of charting cultural or symbolic resources that define and affect the rationality of social actions within social hierarchies. There is a great value in his proposition of a sociology of symbolic power that addresses the important topic of relations between culture and social structure and offers an interesting intellectual framework that connects human actions and practices to institutional hierarchies. A logical next step for North’s discourse on institutions, having problematised the role of mental models in economic path-specificity, is to look into the way mental models are situated within a given social order. Adding this key dimension to the well explored theory of institutions is what I perceive to be the original contribution of my thesis.

## Chapter 4: Arya-Nepal

My first case study, Arya-Nepal, was a Taylorist factory and a testimony to the MFA-led export development of homogenous readymade garments in Nepal. It grew rapidly in the 1980s and 1990s but then collapsed abruptly at the turn of the millennium, owing to the inherent bottlenecks in the global supply chain used by Nepalese garment factories, the disruptive labour union politics as practised by the Maoists, and above all, the adverse global trade policy developments. This factory was representative of most of the garment factories in Nepal that mushroomed after the MFA came into being and then collapsed upon its expiration.

Arya-Nepal was initiated and managed by what many businessmen referred to as *padhera janne byapari*<sup>47</sup> and not *parera janne byapari*.<sup>48</sup> This was noted as the key difference between mass manufacturers like Arya-Nepal and specialised producers like Swakan-Chhemu and Rongoli – a theme I will pursue in the succeeding chapters. Such a distinction was often made not only in describing what types of garments they could or could not produce and what kinds of markets they could or could not penetrate, but also to indicate the level of sophistication commanded in the organisation of the factory shop floors, or the type of business alliances formed with their buyers and suppliers. More so than sectoral differences, it was such nuances of how businessmen perceived opportunities and threats, and how they translated these into practice concerning their industrial engineering which decided their long run trajectories. Differences of State and international policies did matter, but the way they actually materialised on the factory shop floors had much to do with the broader cultural and political context. Hence, how effectively a certain business enterprise could overcome the local and global crises is a question that must take into account both formal and informal policies and the institutions under which they prevail. In pursuing this central theme, I will reconstruct the history of the Arya-Nepal throughout the cycles of economic growth and collapse during the 1980s, 1990s and the early 2000s.

### 1. History of the factory

Ram Lamichhane, from a middle-class family within Kathmandu Valley, was among the few Bahuns who sought occupations outside the ambit of their ancestral priesthood as

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<sup>47</sup> businessmen who are products of books

<sup>48</sup> businessmen who learned through real life experiences

early as the 1980s. The youngest of six sons from two co-wives in a large joint family, Ram thought it best to move to India to join the army after earning a graduate degree. Unfortunately, the pursuit of this *marne-maарne pesha* (profession of dying and killing) brought him into direct confrontation with his practising Bahun family such that he was forced to defect from the army after only a few years of service. Upon his return, the family gave him his *ansha* (share in the ancestral joint property) in an effort to reconcile their differences but also to dissociate themselves from the ritual sin he had committed by having joined the army. Undeterred, Ram used his *ansha* to establish a readymade garment factory, Arya-Nepall.

During the Panchayat era, Nepal pursued a protectionist economic regime whereby the State heavily monitored each and every economic activity. Although the State sought to encourage business entrepreneurship, its business regulations were so tight that the simple task of formally registering a business venture was a privilege available only to those who had ‘source-force’ (patrons, relatives and friends in key positions who could push through the process). Ram had none of the source-force. Hence Arya-Nepall operated as a ‘fabricator,’<sup>49</sup> and had no claims on the export-related public incentives including the MFA quotas. Its primary function was to do jobwork for other factories in Kathmandu who had better source-force and hence were eligible for the lucrative MFA export quota. This was not the most lucrative of businesses, but the garment industry was a promising industry in the late 1980s, and with a great deal of hard work, Arya-Nepall went on to employ about twenty to thirty workers. Of Ram’s two teenage sons, the elder, Sameer Lamichhane, assisted him in managing production and merchandising. In 1992, Arya-Nepall merged with another factory housed in the adjacent building. Ram’s new business counterparts in this merger were Ajay Manandhar and Navin Sharma – a Newar from Kathmandu and a hill Bahun brought up in Terai. Ajay and Navin had a long-standing friendship that went back to their college days and had been business partners for several years before the merger with Arya-Nepall. Ram Lamichhane, was much older than both of them and had known them only for few years. The new venture between Ram, Navin and Ajay inherited a large workforce from both of its predecessors. Although management structure in the new factory was informal, a general understanding among the three partners was that Ram would be in charge of production management; Ajay, accounts and book-keeping; and Navin dealing with buyers and negotiating transactions. The three business partners were declared equal in

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<sup>49</sup> A factory that operated on the ground but remained hidden from State records.

both profit and loss although, interestingly enough, only two of the three partners, Ram and Ajay, invested money in the venture.

The business merger between Ram, Ajay and Navin had been driven by the fact that Nepal was slowly embracing economic liberalisation. As the State loosened its grip on regulating the economy, the business environment in the country became more relaxed and registering a factory was no longer a privilege available only to the elite. After the popular political movement overthrew the autocratic Panchayat regime in 1990 and embraced the multi-party democratic systems, the new government initiated wholesale deregulation of markets and industries in Nepal (see Section 3 in Chapter 2). Once the new national industrial policy was issued in 1992, the Ministries of Industries and Commerce encouraged the formation of business associations and delegated to them some of the regulatory tasks such as business verification and registration. This ended the political cronies' privileged access to the process of factory registration. It was the potential of the improving business-enabling environment which had prompted Ram, Ajay and Navin to merge their individual factories and officially register the new venture, as Arya-Nepal2. The formal registration now gave them access to the much desired MFA quotas. However cumbersome the MFA quota acquisition process was at that time and however alien the complex network of global garment buyers, Arya-Nepal2 now had a potential to reach its own international buyers one day.

Arya-Nepal2's desire to attain the goal of reaching the global market had no shortage of stumbling blocks. Ram Lamichhane neither spoke English nor understood much of the international policy manoeuvres rapidly unfolding at that time. Navin Sharma and Ajay Manandhar however, both had recently acquired MBAs from renowned universities in the region and were more conversant with local and global policy developments. Navin Sharma was particularly seen to be a *chalta-purja*<sup>50</sup> and it was said of him that he could easily cool down any fiery confrontation.<sup>51</sup> More importantly, he had grown up in the Nepal-India border town of Nepalganj in Terai; had credentials from a reputed university in Punjab; and was married to a Punjabi woman and hence had access to some social networks in Punjab. Ram and Ajay looked up to him as someone highly capable of attracting prospective international buyers, in return for which they were prepared to

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<sup>50</sup> Meaning the machinery that runs. In other words, a good manager, doer and negotiator.

<sup>51</sup> 'ago banera gayo bhane pāni banāidina sakne' (he would turn the other into water even if one confronts him as the fire).

grant him equal shares in profit even though he had made no financial investment in the business.

Arya-Nepal2 manufactured cotton sweat-shirts and tops using both woven and knit fabrics. Initially it had only about forty or fifty *kaligadhs* (artisans) who operated under what was known as the *juwadi* system, whereby seven to fifteen workers formed loose circles, or *khals*, to divide jobs among themselves to sew readymade garments more efficiently. Each *khali* worked under a *naike* who not only took a managerial role but also that of a quasi-employer, having full authority over who to recruit and dismiss, and how much to pay each person for his or her contributions. Since the readymade garment industry was new to the Kathmandu Valley, a large number of workers in Arya-Nepal2 (as in all other garment factories at that time) were from Terai, who had moved to Kathmandu only recently from places with a longer history of garment manufacturing, e.g., the neighbouring Indian states of Bihar and Uttar Pradesh.

As the garment industry deepened its roots in Kathmandu, more and more workers from within Kathmandu Valley and the nearby hills began to join the garment workforce. The industry particularly appealed to the so-called untouchable caste of Damais (tailor caste) from the hills. Arya-Nepal2 initially made remarkable profits: in 1994, it exported over four hundred thousand US dollars worth of readymade garments and employed over a hundred workers. The same year it replaced its old Indian machinery with slightly updated machines and switched its production system from a primitive *juwadi* system to a Taylorist chain system. In the chain system, the factory employed supervisors to develop a more scientific and systematic job division among the workers instead of subcontracting the *khals* to the freelance *naike*s. Once the ethnocentric cliques among the workers were dismantled through the use of the chain system, and the local workers had become more familiar with the skills and work ethics of the readymade garment industry, Arya-Nepal2 began slowly to attract local labour who went on to replace migrant Terai and Indian workers. Despite the seasonality of the production cycle that had made garment-making a less attractive job for the hill workers who generally preferred steady and 'permanent' employment, increasingly they began to feature as regular workers in Arya-Nepal2. Women, especially, who were not seen as the primary wage-earners of the family and hence could afford to be unemployed for some months if needed were particularly attracted to this new industry. I have already mentioned how the hill Damais emerged rapidly as a dominant group in the garment shop floors where

they not only outnumbered other hill castes but also outpaced them in climbing the career ladder such that it was increasingly common to see Damais supervising higher caste workers. Such a development was bound to have important implications for Arya-Nepal3 in the years to come.

By 1997, however, Arya-Nepal2 had developed worrying symptoms: there were frequent disputes among the business partners. Production was regularly disrupted because of interruptions from business partners and their family members; the trust in the accounting and book-keeping was fast eroding; and worse yet, some of the regular international buyers were beginning to take their business elsewhere. As a result of this, Ram expressed his wish to opt out of the partnership. A separation deal was reached where Ajay and Navin agreed with Ram that they would pay back his share of capital within a year. The spouses and sons of the three business partners were brought in as informal witnesses to this agreement. Nevertheless, as was customary among the smaller businessmen in Nepal at that time, no legal documents were signed and no third party was involved.

The unrecorded verbal agreement between the three business partners faced a major challenge within six months as the factory came to a standstill over a dispute with a major client. This could not have come at a worse time: Arya-Nepal2 had outstanding loans due not only to Ram, but also to the bank. Navin Sharma had only recently taken out a loan in order to revamp production and had put his house up as collateral. Despite their best efforts, the dispute could not be settled and the buyer cancelled his Letter of Credit on a major purchase order leaving Arya-Nepal2 insolvent. Navin and Ajay divided some of the fixed assets between themselves, while Ram kept to the earlier agreement that he had been ‘separated’ from the factory prior to its closure and so did not claim a share in the fixed assets.

Since Navin could no longer pay interest on the outstanding loans, Arya-Nepal2 filed for liquidation in 1999. The State-owned commercial bank, who had lent the original loan, not only seized the factory, but also declared all three business partners blacklisted. Under the blacklisting law, none of the three would be allowed to register another business venture under their ownership until they paid back at least the accumulated interest on the factory loans. On top of everything else, their debt to Ram was still outstanding. Interestingly, the response of the two business partners to this crisis showed

a stark contrast. Under major financial pressure, Ajay Manandhar denied his financial obligations to Ram, yet, although not visibly different in financial and social position, Navin Sharma honoured his.<sup>52</sup> This earned him great respect among his professional and social circles, that ‘as a Bahun he would not let down another Bahun’. Ajay’s refusal to honour his obligations was less attributed to his individual dishonesty and more to his socio-religious standing; as Ram’s son Sameer put it: ‘Why would he pay us back when we did not have a single common kin … and [more importantly] even [our] Gods [were] different.’

After a brief impasse between 1999 and 2000, during which period Navin had various jobs ranging from subcontracting for a Korean manufacturer to teaching at a local university, a new opportunity came his way. He signed a contract with Arya-India, Arya-Nepal2’s former fabric supplier, to work as CEO for their new plant being launched in Kathmandu. Arya-India was a private company owned by three brothers from a Punjabi Hindu family. They owned five factories, two of which manufactured cotton knit fabrics and the other three ready-made garments exclusively for the American market. Ownership and management of the factories was clearly divided among the three brothers. It was Arya-India-Fabrics, owned and managed by the youngest, Ramesh Jain, which invested fifty-one thousand US dollars to establish Arya-Nepal3.

The senior management in Arya-Nepal3 comprised of a vice-president and three full-time officers transferred from their headquarters in Ludhiana; as well as Navin, who soon brought in Sameer Lamichhane, Ram’s older son, as Production Manager. Ram himself had retired and now spent most of his time on pilgrimage and other spiritual activities. Arya-Nepal3 rented a house just outside the Balaju Industrial Zone, a government-facilitated industrial district in the northeast end of the Kathmandu Valley. This newly established government industrial zone attracted a large number of workers from all over the country. Whenever vacancies arose in Arya-Nepal3 that could not be filled from the pool of old workers and acquaintances from Arya-Nepal2, they naturally recruited people from the local labour market at times competing favourably with the industrial zone. As far as machinery was concerned, it was not possible to reuse the old stock from Arya-Nepal2 – not only had the old machines rusted and new ones unavailable locally, but in any case they were appropriate only for manufacturing woven garments. Arya-Nepal3 was to abandon woven clothes and specialise in cotton knitwear garments which needed

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<sup>52</sup> It took Navin almost five years to remobilise his business and reaccumulate enough money to be able to pay back his debts to Ram. He finally did it in October 2004.

better technology. Hence, Arya-India transported new and better, but much more expensive, machines from Ludhiana; earlier machines had cost about three to four thousand Nepalese rupees, but the new Japanese and Taiwanese machines cost as much as twenty five to seventy five thousand rupees.

In November 2000, Arya-Nepal3 assigned Sameer to set up a new plant. The team rented a large complex of thirty-seven thousand square feet in the less built-up neighbourhood of Sitapaila on the north-western periphery of the Kathmandu Valley. Although the spacious new complex accommodated two full production chains, it lacked basic public infrastructure. The road to the factory flooded during the monsoon, the locality was a hang-out for criminals, gangsters and drug-dealers<sup>53</sup> and the local farmers saw Arya-Nepal3 as an intrusion into their agrarian idylls. Arya-Nepal3 tried to address these issues in various ways: it built a small temple within the factory premises and recruited two priests to perform daily morning rituals, invested in road repair in the neighbourhood and offered handsome donations to the local 'guthis' (communal trusts). Dealing with the local crime, however, was a harder nut to crack. It initially recruited the services of a private security company only to learn one day that the main factory gate had been attacked in the presence of these security guards. Finally, Arya-Nepal3 sought help from local political leaders to deal with the local crime.

The elected Chairman of the Ward was a local leader of the Nepali Congress party who was also a black-belt in martial arts. The Chairman started his job by facilitating a wide range of philanthropic activities that would improve the company's performance on corporate social responsibility. For example, a local sewerage system was developed and electricity distribution lines were extended to reach nearby villages. Subsequently, he recruited a number of his men into the Arya-Nepal3 workforce who acted as unofficial security guards to keep a close eye on the local gangsters. On several occasions, his men fought off the gangsters when they tried to disrupt factory operations. These measures were visibly effective; after three years of continued effort, the crime and work disruptions had significantly reduced and the factory was operating reasonably smoothly. Several of the local inhabitants, especially the women, had now joined the factory workforce and the neighbourhood had developed into a recognisable industrial cluster when eleven other factories had moved in. Encouraged by this, Arya-Nepal3 moved all

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<sup>53</sup> Not long before Arya-Nepal3 was established, there had been a fatal gang fight where one of the workers I studied in my second case study, Rongoli, lost his brother. The murderer had nothing to do with either Arya-Nepal3 or Rongoli, but the local farmers still somehow thought the 'large factories' to be the indirect culprits of the burgeoning crime in the neighbourhood.

of its operations to this new location, leaving behind only a small cutting unit in its old building in Balaju. The Jain brothers acknowledged the hard work of Sameer and his team in making this work and he went on to exercise stronger command among the Arya-Nepal3 workers.

It served Sameer well that most of the workers in Arya-Nepal3 then were hill workers with whom he had a better rapport than his Indian colleagues. While the Indian managers remained tight-fisted about (Nepali) workers' promotions and compensations, Sameer (with Navin's blessings) was visibly more benevolent. This made him (and Navin) popular among the Nepali workers, and their decisions and commands were the ones that the workers heeded most. Such increased prominence of the Nepali managers would have long-lasting implications for the Indian-Nepali collaboration in Arya-Nepal3.

It is important to describe a particular incident in order to explain why an essentially Indian factory would let Nepali managers exercise such authority over factory management. When the factory was established, two senior positions were created to strike a balance between Nepalis and Indians: Navin was initially expected to work closely with a Kathmandu-based Punjabi Vice-President. This arrangement worked well at the outset, but an implicit national-ethnic league soon emerged in the factory, which was exacerbated by a political incident in Kathmandu that gave air to general political hostility towards Indian 'imperialistic tendencies' at times. This one incident is exemplary of the complexity of Nepali-Indian relations. In January 2001, the opposition political parties in Nepal protested against the government's suppression of a peaceful demonstration marching towards the Indian Embassy. The march was to protest against some controversial statements allegedly made by Hritik Roshan, a famous Bollywood film star, concerning Nepal. The police over-reacted and tried to quell the protest by firing in the air, and accidentally a bullet hit and killed a child. This fuelled the tension between Nepalis and Indians and some Indians were attacked during riots in the Kathmandu streets.<sup>54</sup> Parliament stalled for several days over this among several other issues. This political crisis had acute implications for Arya-Nepal3. Echoing the protests in the streets of Kathmandu, the workers at Arya-Nepal3 formed a Madheshi Daman Pratikar Samiti (Resistance Committee against Madheshi (i.e. Indian) Domination). Spontaneous riots engulfed the entire garment industry, fuelled by the fact that the Nepali hill workers had long felt threatened by the vast competition from the Indian and

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<sup>54</sup> Since the Nepali hill people could not easily tell Nepali Madheshis from Indians by their physical appearances, the Madheshis also were targeted at times.

Madheshi workers. Like most other garment factories, the managers of Arya-Nepal3 quickly halted its operations for more than a week. The following week the Bollywood actor in question issued a press statement claiming not only had he never given the alleged interview nor made the alleged remarks on Nepal but he had recently got married and was away on honeymoon. With that, Kathmandu returned to normalcy. So did Arya-Nepal3.<sup>55</sup>

Within weeks of Arya-Nepal3 resuming operations, a bizarrely analogous crisis disrupted the factory again: the Nepali factory workers started a petition to denounce anti-Nepal remarks allegedly made by the Indian Vice President of Arya-Nepal3. After the petition had collected as many as four hundred signatures and the workers had refused to return to factory floors, Ramesh Jain, one of the partners flew in from Ludhiana to negotiate with the aggravated labour union. He then suspended the Indian Vice-President in an attempt to calm the workers, requiring him to return to Ludhiana where he submitted his resignation. The position was not refilled. After that, Navin and Sameer took full control of factory operations in their capacities as CEO and Production Manager.

## 2. Workers

Navin and Sameer's factory politics worked further to solidify preferential treatment of the hill workers over Madheshi workers. Subsequently, the Nepali workers' resistance to Indian leadership in Arya-Nepal3 manifested and intensified at the time of larger political conflicts between Nepalis and Indians on broader issues.

Within the complex ethno-political forces at play on the factory floors, the mechanics of labour recruitment was relatively simple and straightforward. The new generation of workers had found their way into the Arya-Nepal3 shop floors through multiple channels. Like other mass-manufacturing garment factories, Arya-Nepal3 maintained a notice board where labour requirements for the week were posted every Sunday. The factory compound and the two small tea shops across the road had a steady crowd of men and women loitering around, catching up on gossip, offering *chakari* to the floor supervisors and hoping to be recruited. It was up to the floor supervisors to decide how many production chains they needed and how many workers would be recruited. In principle, new workers had to have a Nepali citizenship certificate, pass an interview and

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<sup>55</sup> The alleged interview from the Bollywood actor was never substantiated. Instead, several of the local vernacular newspapers speculated that such an ethnic disruption was the making of the Maoists who were at the time testing out preliminary strategies for an urban assault under their People's War.

demonstrate good tailoring skills. In practice, however, the floor supervisors already knew most of the workers queuing up outside the factory and formal interviews and tests were taken only rarely. Within this chaotic recruitment process, local acquaintances had preference over others, but equally, since the supervisors' bonuses were based on collective productivity, people with better performance records were always chosen over others regardless of their origins and ethnicities.

Arya-Nepal3 by no means had the monopoly over the garment labour force. Workers were free to go to hundreds of other factories functioning in parallel and they did. Workers met each other in mosques, temples and teahouses, and they switched jobs for a raise as little as fifty rupees. While the Indian and Madhesi workers did this more easily – thus earning them the name *shukrabare* (Fridayers),<sup>56</sup> hill workers made some effort to stay in the factories where they knew the supervisors. Arya-Nepal3 was especially popular among the garment workers from the hills because it was dominated by Nepali workers and supervisors. Women particularly said that their families thought it was safer for them to work in Arya-Nepal3 than elsewhere where they were more likely to be asked to work side by side with Madheshis.

What eventually weakened the consolidation of Navin and Sameer's influence among the Ary-Nepal-3 labour force was the Maoists' labour unionism that overpowered the readymade garment industry in 2001. The second Maoist national conference in February 2001 adopted the Prachanda Path which broadened their focus and officially gave directions for expanding their base from the rural to the centre (Hutt, 2004). Along with other labour-intensive factories operating in Kathmandu at that time, Arya-Nepal3 became the forefront of Maoist unionism and the Maoists infiltrated the Arya-Nepal3 labour force in the autumn of 2001. The Nepali-Congress-led labour union in Arya-Nepal3 was seen less as a labour union and more as an 'owners' union' working on the factory's public relations in the neighbourhood and beyond. The Maoists entered Arya-Nepal3 often pretending to be unskilled or semi-skilled workers, and once in they easily displaced the Nepali-Congress-led labour union. Ironically, it was the old workers, who Navin and Sameer had inherited from Arya-Nepal2 who had succumbed to the Maoist proselytisation.<sup>57</sup> As Navin and Sameer put it, these workers became, *chhunai nasakine*

<sup>56</sup> It was often the case that the Indian and Madhesi workers (most of whom were Muslims) would exchange information about wages and jobs when they met at Friday prayers and switch loyalties the day after.

<sup>57</sup> Over time, the old workers had evolved into the *de facto* mediators on discussions about labour benefits. Several new workers performed *bhaitika* (an annual ritual that sisters performed to pray for

(uncontrollable) and they paralysed factory operations with their unrealistic demands. For example they wanted a fifty per cent rise in all wages and all of the several hundred temporary workers to be given permanent contracts with the factory. Navin and Sameer were dismayed that it was their own *afno manchhe* (loyals) whom they had patronised for years, who had finally let them down. The workers on the other hand did not reciprocate this notion of *afno manchhe* loyalty with the managers, '[the factory] never sufficiently appreciated our long years of service ... even after decades of our loyalty, we get fired like anybody else any day the factory finds cheaper workers elsewhere'.

As the worker-owner dispute escalated, Arya-Nepal3 suspended its operations for about a month. After the government-Maoist ceasefire collapsed in November 2001 and the government took a firmer position against the rebels,<sup>58</sup> Navin and Sameer called the police in to the factory to have the labour leaders arrested. The real Maoists had already left the factory by then, and the police arrested their allies among the factory workers. This whole episode put Navin's influence among the Nepali workers into jeopardy. Nevertheless, the majority of the workforce in Arya-Nepal3 remained hill migrants. As far as the labour leadership was concerned, the new cohort of hill workers quickly rose to fill the vacuum created by arrest of the old leaders. The local Nepali-Congress-led labour union remained loyal to Navin and Sameer throughout this crisis.

### 3. Production

Arya-Nepal3 manufactured exclusively for the American market. The global buyers for this market approached Arya-Nepal3 through their 'buying houses,' most of which were located either in Mumbai or in New Delhi and were manned by experts who 'knew the pulses' of South Asian garment manufacturers. Bigger brands often entered into formal and long-term agreements with producers and their contracts emphasised quality and labour standards as much as price and profit margins; smaller or no-name brands were more opportunistic and hopped in and out of countries looking for the cheapest deals prompting a ruthless race to the bottom. Arya Nepal3 was registered as an authorised producer with one of the bigger brands, Old Navy<sup>59</sup> that purchased about sixty per cent of its annual production. The rest of it was absorbed either by smaller brands such as

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prosperity and well-being of brothers) to old workers during the festival of Tihar. Others brought *koseli* (gifts) when they visited their homes in the hills. These show the fostering of relationship between the old and new workers as well as an informal hierarchy evolving among them over time.

<sup>58</sup> For example, in November 1999, the government issued a 'red corner notice' to Interpol calling for extradition of the key Maoist leaders from India and beyond.

<sup>59</sup> Old Navy is a brand of clothing and chain of stores owned by Gap Inc.

Target, Li-Fung, Kohl's, May Department Store and Wal-mart, or the no-name brands who worked on cheap anonymous or imitation garments.<sup>60</sup>

Both Arya-Nepal3 and Arya-India were confined to mass manufacturing of six garment items: polo shirts, t-shirts, turtlenecks, halters, tank-tops and jogging trousers. Their productions had inherent complementarities. For example, it cost 10 to 30 per cent of the selling price for Arya-India to buy India's MFA quota for the American market while a lot of Nepal's quota went unused every year.<sup>61</sup> Arya-India manufactured its own fabrics while Arya-Nepal3 was a large consumer of this product. Logically, the Jain brothers arranged matters so that Arya-Nepal3 would manufacture selected garment items in Nepal and Arya-India would become the sole suppliers of all fabrics needed. This arrangement clearly favoured Arya-India for the reasons I discuss in the following paragraph. The fact that Arya-Nepal3 went along with it was an implicit acknowledgement of its status as a dependent subsidiary of Arya-India rather than an independent plant that took care of its own profits and losses.

Arya-India's fabrics were not the cheapest Arya-Nepal3 could buy nor the best quality. Worse yet, Arya-India demanded payment in US dollars even though the Nepali currency was fully convertible to Indian. Arya-India insisted on a dollar-based transaction because of a controversial export incentive on offer from the Indian government for Indian foreign currency earners. India's Duty Entitlement Passbook (DEPB) system granted foreign currency earners an export bonus equivalent to 9 per cent of the export invoice value. This bonus was receivable either in cash directly from the government, or could be sold to other Indian importers with a 5 per cent commission so the latter could use this as a bank guarantee for their own imports. Arya-Nepal3 however, had to undergo a myriad of bureaucratic procedures to get clearance for its dollar-based imports of fabrics when there were rupee-based options to be considered. In addition, with each devaluation of Nepali rupee vis-à-vis US dollars, Arya-Nepal3 incurred more and more losses in every fabric purchase from Arya-India.

Since the buying houses of most of the global buyers were based in India, Arya-India contacted and negotiated most deals with buyers. Once a deal was finalised and a Letter of Credit (L/C) issued, Arya-Nepal3 was brought on board to produce the merchandise.

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<sup>60</sup> For example, plain t-shirts supplied to organisations interested in selling promotional t-shirts with their logos and mottos.

<sup>61</sup> See Section 2 of Chapter 1 for details on how MFA quotas functioned and how they were bought and sold in global and local markets.

An average purchase order in Arya-Nepal3 exceeded 50,000 pieces and took a lead time of thirty to sixty days to manufacture, mobilising five to eight hundred people. The purchase orders came with such detailed size and design specifications that there was little room or incentive to incorporate any originality. For example, a T-shirt with a retail price of USD 8.50 would have an L/C value of USD 3 per piece inclusive of raw materials, labour and overhead costs. The simplicity of the product and magnitude of volume then meant that the best avenue for revenue generation lay, not in designing and innovation, but in best utilisation of inputs and stringent cost-cutting in overheads.

Every production order began with fabrics acquisition. Fabrics were handled not in the new plant in Sitapaila, but the old plant in Balaju. Every roll was scanned for holes and defects both manually and using scanning machines and the approved fabrics then sent to the cutting masters in the same plant. There were only two cutting masters in Arya-Nepal3, and they were among the best paid workers. The task of cutting pieces into the fabrics was relatively easy, but what made the cutting masters' jobs demanding was their skill in utilising the last inch of fabric in order to cut wastage. Once this was done satisfactorily, cut patterns were bundled and despatched to the main plant in Sitapaila where the pieces would be made into garments.

Sameer, the production manager, led the team of floor supervisors and technicians who developed a detailed graphics plan of the production chain and physically set up chains, made sure that machines were in the right order, manned by the right man (or woman), and that each person had just enough space to do the job. Then he determined, in consultation with the floor supervisors and technicians, how much each worker in the chain should be paid. This depended on how long the job took, how skilled the workers had to be, and what types of machines were required. For example, stitching the neck into the main *palla* (body piece) was one of the most time-consuming and hence best paid jobs in the entire chain; operating hemming and overlock machines required experienced – and hence expensive – workers; whilst although it took much longer to cut out the hanging threads once the stitching was over, this was an unskilled task and earned only little money. Once the rates were agreed upon and approved by higher management, notices were put up on the factory board, and the worker hiring process would begin.

Once the production process took off, speed and continuity of the rhythm were what determined Arya-Nepal3's profits. Arya-Nepal3 was one of the best in Nepal when it came to efficiency on the factory floor. This was necessary especially for a geographically challenged country like Nepal which is isolated from the global supply chain. Since there are bound to be disruptions in acquisition of inputs and transport of outputs, the factory floor operations had to be especially efficient. Following this, the garment factories in Nepal actually developed a relatively innovative business model of paying the workers not by number of hours he or she worked but by the number of pieces he or she produced each day. The piece was not the finished garment piece but those where each worker did one sub-task within a whole chain of production. The skilled workers in Arya-Nepal3 not only accepted contracts that were as short as a few weeks, but also gave up the stability of monthly or daily wages in order to earn piece-based rates because they were higher than regular wages. The unskilled workers who were stationed to work alongside the piece-rate workers, e.g., 'thread-removers' (who removed hanging threads after the stitching process was over) and 'matchers' (who neatly matched the right parts before the tailor ran them through the stitching machines), however, were paid less and their wages were counted on a monthly basis.

#### **An example of the manufacturing chain for polo shirts**

**Line supervisors:** Newar<sup>1</sup> and Chhetri<sup>\*</sup>

	Work process	Machine Type & no. of units	Persons working	Time taken (seconds)	Wages (NRs)
1.	Shoulder joint	O/L (1)	Newar (Jhapa <sup>1)</sup>	21	0.40
2.	Neck rib making - <i>tanki</i>	S/N (1)	Chhetri (Kathmandu)	14	0.25
3.	Thread cutting	-	Chhetri (Kathmandu) Damai (Kathmandu) <sup>+</sup>	-	
4.	Neck rib attaching	O/L (2)	Bahun (Palpa) Chhetri (Baitadi)	34	0.70
5.	Checking	-	Chhetri (Kathmandu) <sup>*</sup>	15	
6.	Neck tape making	O/L	...	-	0.10
7.	Neck tape attach piping <i>kachcha</i>	S/N (1)	Damai (Kathmandu) <sup>+</sup>	56	0.70
8.	Front neck cover stitch	F/L (1)	Dalit (Janakpur)	19	0.45

9.	Back neck single needle <i>kachcha</i>	S/N (2)	Muslim (Mahottari) <sup>x</sup> Muslim (Mahottari) <sup>x</sup>	151	0.40
10.	Back tape <i>pakka</i> with label				0.90
11.	Sorting		Gurung (Ramechhap)	-	
12.	Label making	S/N (1)	Tamang (Ramechhap)		0.20
13.	Sleeve attaching	O/L (1)	Magar (Ramechhap)	58	0.80
14.	Checking/sorting		Rai (Ramechhap)		
15.	Armhole cover stitch	F/L (1)	Newar (Kathmandu) <sup>1</sup>	41	0.60
16.	Side seam overlock	O/L (1)	Chhetri (Kathmandu) <sup>*</sup>	52	0.80
17.	Sorting		Chhetri (Kathmandu) <sup>*</sup>		
18.	Bottom hemming	F/L (1)	Chhetri (Kathmandu)	48	0.75
19.	Sleeve hemming	F/L (1)	Chhetri (Kathmandu)	49	0.90
20.	Patch label <i>kachcha</i>	S/N	...		0.20
21.	Patch label <i>pakka</i>	S/N	...		0.30
				9.3 minutes	

**Notes:**

<sup>\*</sup> and <sup>+</sup> denote people belonging to one family.

<sup>x</sup> denotes people from one family working in partnership against the official set up.

<sup>1</sup> migrated to Terai generations ago and did not speak Newar language

<sup>2</sup> migrated to hills generations ago and did not speak Newar

S/N – single needle sewing machine

O/L – overlock machine

F/L – flatlock machine

For Arya-Nepal3, 'quality' meant accuracy of measurements and had nothing to do with authenticity of inputs, innovation of designs or creativity of process. Each purchase order came to Arya-Nepal3 with a sample piece and a detailed *naap khata* (measurement specification book) that described the required measurements in great detail. These were the benchmarks against which quality was measured. The task of quality control could also be seen as a punctuation in the otherwise uninterrupted flow of the production process. The quality checkers sat side by side with the tailors and checked measurements, first, when the two main body parts or *pallas* were stitched together, then when the

sleeves and necks were added to the *pallas* and finally upon completion of the stitching process. Although each checker relied initially on a specification chart, or a simplified version of the *naap khata* which they kept prominently on their table, the rhythm of the process quickly enabled them to memorise the details such that they would soon discard the specification tables and measuring tapes to rely solely on their fingers and memories.

After stitching, the garments were passed on to the finishing department where they were washed to remove any stains and dust; machine-checked to see if any broken needles or other hazardous objects had got stuck in them; any hanging threads removed; ironed, packed and finally despatched to the factory storage. These tasks flowed spontaneously again only to be punctuated by three to six rounds of additional quality inspections. Occasionally, petrol and chemical sprays were applied to remove any stains present, otherwise, they were sent for a required ordinary laundering in the facility newly set up within the factory. When the laundry facility was inadequate or machines malfunctioned, which happened every now and then, this task was subcontracted to an external service provider.

Unlike the stitching operations where the factory had established an elaborate Taylorist production mechanism, the world of finishing was still caught between old and new. Apart from a few procedures, the task of finishing required the operation of heavy machinery such as the needle detectors, industrial washers and dryers, steamers and chemical sprayers, etc. Managers were unwilling to assign these responsibilities to people who might not make a long-term commitment to the factory, but had to recognise the fact that not many of the local Nepalis in the garment industry had yet acquired the skills necessary to operate these machines. Further, the finishing facility had been set up within the factory only recently, which meant Sameer and Navin could not inherit the *afno manchhe* from Arya-Nepal1 and Arya-Nepal2 as they had done for several other jobs. As a result, the finishing department was still under the control of migrant workers from northern India and the southern Terai. The supervisor of the finishing unit, a Bahun from Uttar Pradesh, received an attractive salary and benefits. Whereas the labour recruitment tasks in the stitching units had been highly anonymised, the finishing supervisor still retained a large amount of control over who he hired in his unit even to do less technology-intensive jobs such as steaming, ironing, folding and packing. Since the finishing workers saw their careers and remunerations more in the hands of their unit supervisor than higher management, they demonstrated greater loyalty to him as a person

than to Sameer, Navin or the Punjabi managers. For example, none of the finishing workers signed the petition against the Vice President when the rest of the workers were adamant that he should step down over an ethnic *faux pas*. Later on, after the Maoist proselytisers had left and the rest of the factory attempted to negotiate better working conditions, the finishing workers did not take part in any of it. It appeared that – as was the case in the specialised factories that I will discuss in Chapters 5 and 6 – the finishing unit still put ethnic and individualised loyalties above occupational, and ironically, it appeared that such introverted networks helped them keep their distance from the labour turbulences experienced elsewhere in the factory.

#### 4. Transportation and Shipping

On average, it took about three weeks for a garment consignment to travel from Nepal to the United States via land and sea, at a cost of USD 900 for a standard twenty feet container. It was customary for the buyer to pay all the costs once the merchandise was loaded on the ship.<sup>62</sup> However, the downside was that the L/Cs were time-bound and if the merchandise was not despatched from the port in time, the buyer had the right to cancel the L/C denying even the minimum payment of the entire order.<sup>63</sup> This left Arya-Nepal3 and other mass manufacturers of the readymade garment teetering at the edge of a precipice. Whenever despatch to Kolkata was delayed, as would happen every now and then owing to political and supply chain uncertainties, Arya-Nepal3 had no option but to courier the merchandise to the next point of stop so that the shipment arrived on time at the final destination. The mass manufacturers occasionally sought help from GAN and the government in arbitration with buyers in disputes involving shipping issues. Their efforts were often in vain, but this was only to be expected given that the global readymade garment industry was a zero sum game, as the developing country suppliers all competed for the business of the few select buyers who controlled the global market.

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<sup>62</sup> A standard garment transaction involved a Letter of Credit (L/C) with the specification ‘Free On Board (FOB) Kolkata port,’ where payment was generally triggered upon presentation of a letter from the buyer confirming receipt of the merchandise. The buyer had to bear all costs and risks of loss of or damage to the goods from the point that the merchandise was loaded on the designated ship in Kolkata port. FOB required the seller to clear the goods for export.

<sup>63</sup> I have described in detail in Section 3.1 of this chapter how Arya-Nepal2 had closed down because the L/C for one of their major orders was cancelled. The cancellation in this case was because of quality issues, but it still shows the power global garment buyers had over their producers from developing countries.

I specifically looked at one purchase order Arya-Nepal3 worked on during my fieldwork in the factory. This was an order from the Old Navy brand of Gap Inc to produce USD 650,000 worth of polo shirts. If Arya-Nepal3 had produced this merchandise as per the original time table and despatched it in time, it would have earned a profit of USD 65,000 or 10 per cent of the order value. However, production was delayed due to frequent political strikes which not only disrupted the timely arrival of the imported fabrics but also shut down the factory floor for weeks at a time. As a result, the consignment was four weeks late leaving Kathmandu and had to be air-freighted all the way to the United States. This cost Arya-Nepal3 USD 156,000 or 24 per cent of the value of the merchandise leading to an overall loss of 14 per cent of the total value of the order. Admittedly it was rare that producers were forced to bear such heavy losses, although every mass manufacturer I spoke to had air-couriered their consignment at least part of the way at one time or another.

When production was not disrupted, Arya-Nepal3 shipped its garments to the American markets through the trans-Pacific route starting at the port of Kolkata. While the Kolkata-Los Angeles transhipment route was smooth and relatively predictable, the biggest ordeal for Arya-Nepal3 was to get the consignment to Kolkata safe and on time. Officially, there were 22 agreed transit and customs posts along the 1400 kilometre long border, but only 15 were designated points to Kolkata. Most exporters including Arya-Nepal3 preferred to use the Raxaul transit point in Birganj; if the roads were smooth, it took four to six days by bus to transport a consignment from Kathmandu to Kolkata and two days by rail. However, consignments were often delayed for weeks, not only during the monsoon when landslides routinely washed roads away but also during the political strikes called by the mainstream opposition parties as well as during the skirmishes between the Maoist rebels and the army which brought highway operations to a standstill for several weeks.

Beyond the obvious logistical bottlenecks, Nepal-India transportation also suffered from a series of political ones. Understanding these bottlenecks will entail some historical knowledge of the political problems Nepal and India have encountered throughout the diverse political trajectories they have undergone. There are no mountains, rivers or canyons that would have marked a natural border between Nepal and India along the Terai. The thick forests of Charkose Jhadi which were infested with malaria had historically acted as a natural border between Nepal and India, although local residents

from both sides of the border were free to move around as they wished. After Nepal lost a war against the East India Company (EIC hereafter) in 1814, it signed a historic treaty in 1816,<sup>64</sup> which facilitated the official border demarcation process between the two countries. Following this, Nepal and the EIC agreed on the major road junctions and places to levy customs duties. Nepal-EIC relations improved significantly after Jung Bahadur Rana came to power and demonstrated great loyalty to the British in quelling the Sepoy Mutiny of 1857.<sup>65</sup> The British soon developed the open border with Nepal in order to gain easy access to Nepalese raw materials such as timber and forest produce, herbs and medicinal plants, hides and skins, etc. (Lall, 1999a). The border became more relaxed and *de facto* emerged as an ‘open border’ after the British signed a treaty with Nepal in 1923 recognising Nepal as a sovereign independent country and thus erasing from Nepali minds the fear of British invasion.

Prime Minister Chandra Shamsher initiated a series of development efforts to improve Nepal’s connectivity with India through railway projects that linked Amlekhganj with Raxaul, Janakpur with Jayanagar, etc. In the 1950s and 1960s, the Panchayat regime initiated internal and international immigration schemes for the hill tribes.<sup>66</sup> Despite this, access to Nepal-India border crossings remained in the hands of Madheshi (largely Marwari) entrepreneurs. This might partly be attributed to the fact that the border continued to be a site of criminal activities and problems arising from the politics of Indo-Nepali relations. Even today, there is no denying the fact that the Nepal-India border continues to be a place where human trafficking and the smuggling of drugs, arms, archaeological artefacts, medicinal herbs and general commodities flourish.

Adding to the woes of the transport entrepreneurs trying to cross the Nepal-India borders, was the lack of clarity and system in the customs clearance process. This was document intensive – around fifteen documents might be required for imports and eleven for exports. The tax procedure alone required three separate forms for business tax, income tax and VAT registration for import and export. There was neither a consensus nor any

<sup>64</sup> The treaty of Sugauli under which Nepal lost some of its territories to the British.

<sup>65</sup> In recognition of Rana loyalty to the British, the EIC signed a treaty with Nepal in 1860 where it restored the far western territory that had been ceded to India under the 1816 Treaty of Sugauli. This territory is also known as *naya muluk* or New Nepal.

<sup>66</sup> For example, in 1964, when Burma enforced its new citizenship act, Nepalis who opted out of Burmese citizenship were resettled in the central Terai (Kansakar: 1979, 65). When there were ethnic riots in Northeast India, people of Nepali origin were allowed to resettle in eastern Terai. Some of the Terai land were confiscated from the local Tharus and Madheshis to redistribute to the hill people as part of the first land reform programme initiated by the Panchayat regime in 1964. The resettlement programme for landless people (*punarbas*) in 1972 also saw more hill people move to Terai.

transparency as to which documents were required for which types of merchandise because requirements changed at the whim of the customs officials in place which meant that the transporters had to maintain a close alliance with the customs officials and keep them happy at all costs.

This historical detour brings back the issue Arya-Nepal3 is currently faced with – that its supply chain logistics was well beyond its control. Inasmuch as it would have liked to expedite and save costs on transportation, customs clearance and border crossing – especially to make up for the erratic factory operations in Kathmandu under unpredictable labour unionism – it was dependent on its few *afno manchhe* connections for any queue-jumping that would marginally expedite its merchandise at the border. It is true that Arya-Nepal3 fared relatively better in handling the border bureaucracy compared to their non-Bahun-Chhetri counterparts. But it had no solution to the exorbitant transport costs every mass garment exporter had to live with. Owing to the bad infrastructure, lose border management and sporadic cases of criminality involved, there simply wasn't a critical mass of transport operators through the border. As a result, transportation costs were very high until the merchandise got loaded on the ships in Kolkata port and joined the global transhipment. These were serious factors that hindered Arya-Nepal3's competitiveness in the global garment market.

## **5. Collapse of the factory**

Owing to the hostile local political and international policy scenarios, Arya-Nepal3 closed its operations in March 2004. While labour productivity in Arya-Nepal3 was only slightly lower than that in Arya-India in Ludhiana, the overall cost of operations were substantially higher. For example, the inputs and accessories had to be transported from India and elsewhere to Kathmandu which took 4 to 6 days for physical transportation and 6-10 days of exploration to find the right partners and finalise deals. In addition, as I have described earlier in Section 3, Arya-Nepal3 had no other choice but to use fabrics produced in Arya-India under the adverse terms of trade previously described. Managerial relations had soured since the Hritik Roshan scandal and labour organisation had deteriorated as the Maoists came out strongly with their anti-India agenda. The recurrent *bandhs* (strikes) called by the mainstream opposition parties had seriously fragmented its supply chain and the scheduled expiration of the MFA in December 2004 was like a sword hanging over its head. The final straw was that Arya-Nepal3 was forced to air-courier three of its consignments consecutively within the short period of

October 2003 to February 2004, bringing with it serious financial losses that called its business viability into question.

After the air-couriering of the first consignment in October 2003, Arya-Nepal3 floated a proposal to revamp its managerial organisation. Soon, a 'new' managerial structure was developed with the help of human resources experts from Ludhiana. The HR experts recommended hiring the services of a top-notch business consultancy to help develop a new business strategy. Fearful that such a team might advise against the tenure of the 'old' managers, Navin recommended instead that they recruit a team of 'young and capable' people to join the factory as permanent career managers. A group of four young business graduates and two fashion designers from prestigious fashion designing schools in India and European countries were selected through a competitive process. This team was expected to work under Navin's supervision but also in close liaison with the managers in Arya-India in Ludhiana to upgrade the organisational structure and operating systems of the factory. Major upgrades were made in the factory's accounting system. They were paid approximately double Sameer's salary and the company not only set up fancy offices for them but also arranged a whole set of perks such as company cars for their daily commute and membership in elite business clubs in Kathmandu.

The arrival of the new team sparked a great deal of interest in the factory. On the one hand, the factory workers saw these young people as potential saviours who might save them from the danger of redundancy hovering over their heads. The team was given a warm welcome, by not only Sameer and Navin but also the accountants, store-keepers, supervisors and merchandisers. On the other hand, the distinction of their attire and etiquette sparked curiosity among people. The security guards at the main gate would salute them not because they were functionally important but because they came to the office every morning in their modern ties and scarves, looking important; floor supervisors found it amusing that they were suddenly being addressed with the honorifics *tapain* and *ji*, as opposed to the familiar *timi*; Sameer was impressed that they spoke with the Indian managers not in Hindi but in English; Navin noted their habits of taking notes during discussions and their knowledge of the latest computer software used for accounting, merchandising and fashion-designing. Before long, the factory started entertaining a series of daily and weekly meetings in the meeting room as opposed to the previous practice of standing in a circle in the middle of the stitching floor to discuss

anything ranging from machinery upgrading to factory downsizing, where everybody from CEO to floor supervisor felt free to walk in and offer their opinions.

However, frictions soon emerged between the old and the new managers: The Indian managers simply refused to speak English, and to the dislike of the new team whose Hindi was not fluent, meetings went back to being held in Hindi. On one occasion, a female merchandise expert of the new team was abruptly told by her Punjabi counterpart that she should tie back her hair at all times when she was in the factory, which sent shockwaves among the new team members. They were also not encouraged by the fact that the floor supervisors and production managers calculated time and costs of production spontaneously in their heads while they themselves preferred to enter data systematically into the computer to calculate their forecasts. On one occasion, one of the new merchandising experts forgot to place an order for the thread when placing an order for buttons. This was seen as a very basic mistake and became a classic joke among the factory workers. But what made the new team a laughing stock was their recommendation that the company invest in an expensive merchandise management software to prevent such problems in future. Within three months of joining, the new team had more or less failed to reinvigorate the factory or bring in any solutions to its long list of problems. One of the many rumours floating in the factory was about a conspiracy because the leader of the new team was supposedly somehow affiliated with the Maoist party. This probably had to do with a series of references he made to stories of the success of the Maoists at grassroots level which may have been said as an attempt to motivate the workers.

The new team did not really find their stint in the garment factory very rewarding either. They felt that garment-manufacturing was a lower class job and offered little career prospects. Two of them had left previous employment in travel agencies which were exclusively desk jobs and thus seen as intellectually more rewarding. One said she would ultimately like to find something in the international development industry. The other preferred to be in a fashion designing company where her skills would be more useful. They also favoured the idea of running their own business as opposed to being employed. It did not help that garment manufacturing was not a promising industry any more. Most of them frequently referred to older kin or friends with careers in more glamorous professions such as hotel management, public relations or the media as their role models. Their common assessment of a garment job was that it was more about

*charko bolnu* (shouting) and *chappal khyaunu* (rubbing shoes) than *dimagko kam* (intellectual work). Their families and friends were not particularly impressed by a career in the garment industry and although they were earning salaries that were competitive compared to other sectors, one of them said he did not tell his girlfriend that he worked in the garment industry. By March 2004, all six of them had quit.

In the meantime, at some considerable cost, Arya-Nepal3 employed a management consultancy team from Ludhiana to make some recommendations which Sameer and the floor supervisors openly argued was a repetition of what they were already doing. Whilst Navin made a few trips to Ludhiana to discuss the factory's future, two more consignments had to be air couriered to Singapore because of production delays. The management consultancy firm advised Arya-Nepal3 to apply for government loan packages to try and counteract the recent losses incurred. This was not acceptable to Navin who argued in turn that Arya-Nepal3's profits and losses should be examined not in isolation but in conjunction with the accounts of the broader Arya-Group. He specifically pointed out the fact that Arya-Nepal3 had been sourcing all its fabrics from Arya-India in lucrative US dollar terms purely to help the latter qualify for the attractive fiscal incentives being dished out by the Indian government (see Section 3). Ironically, while the discussion on loan applications proceeded, Navin was finally able to pay off the last tranche of bank loans he had taken out half a decade earlier to rescue Arya-Nepal2. He was not only finally taken off the government's blacklist but was also able to pay back some of the money he owed to Sameer's father from their business separation deal (see Section 1).

Parallel to this series of somewhat discouraging developments at the managerial level, Arya-Nepal3 underwent a series of other tragic incidents. In September 2003, an accident occurred in the washing unit seriously injuring five of the finishing workers. This caused the closure of the washing unit and the factory subcontracted the task to an outside service provider. In October 2003, a major bus accident killed five of the stitching workers and injured 26 others as they were being dropped off after work in a factory-operated bus. Despite the difficulties, the factory was seen to have paid generous compensation to the victims, although there were workers who thought the factory could have done more. In January 2004, Navin Sharma's older brother, who had remained unmarried all his life in order to raise Navin after their parents passed away, had an untimely death and in February, Sameer lost his brother-in-law to a sudden and untimely

heart attack. These incidents left Navin and Sameer jaded. A lively and ambitious business venture a year ago, Arya-Nepal3 was beginning to lose its fervour and around it, more and more garment factories closed down owing to deteriorating local political conditions. In a desperate attempt to cast away the dark clouds hovering overhead, Arya-Nepal3 commissioned a series of religious ceremonies in the factory while both Sameer and Navin remained occupied in the funeral rites of their family and kin.

In February 2004, the factory decided to downsize and let go of one of its two plants. There was open disagreement between the Jain brothers and Navin and Sameer as to which of the two buildings should be kept. Ramesh Jain, in particular, was in favour of keeping the smaller building but Navin and Sameer felt that the factory would not be able to operate unless the main building was retained. The main priest from Arya-India flew in to Nepal and advised that the main building was astrologically unsuitable for the owner. There were long debates between the Nepali and Indian managers not only about the business and ethical considerations of the proposed act but also the astrological. Against all odds, however, Arya-Nepal3 kept its main building in Sitapaila and gave up the smaller plant.

The fact that the Jain brothers forced Navin to give up one of the factory buildings was a strong signal to the workers that the problems in the factory were become insurmountable. It also appeared to them that, in the wake of two funerals in the family and two serious accidents in the factory, both Navin and Sameer had reached the end of their tethers. While the more seasoned of the factory workers went elsewhere to look for jobs, the younger and fierier workers decided that it was time to stand up for what they perceived was their rights and to take matters into their own hands. Four of the floor supervisors agreed that they should form a labour union in order to launch a more coordinated grievance schedule. Navin and Sameer's advice to them was, first, that the raising of any new issues would not only alienate Ludhiana but hinder the Nepali management team itself in keeping the factory going; and second, that if the workers wanted the labour unions to get involved, they should coordinate better with the one that was already registered under Arya-Nepal3. The floor supervisors were convinced that the current labour union, registered under the Nepal Trade Union Congress (NTUC) or the labour wing of the Nepali Congress, was not sufficiently responsive to labour needs. They wanted to register a new labour union under the pro-UML General Federation of the Nepalese Trade Unions (GEFONT). As they initiated a signature campaign with the

aim of collecting the legally required quorum of 25 per cent of the total labour force, Navin and Sameer sank further into despair.

In the end, a new labour union was registered and the workers formally took to the floor against the potential factory closure. Such grievances, as Navin had warned the floor supervisors earlier, not only weakened his own case to Ramesh Jain for keeping the factory operating but also shook his confidence in himself as the leader of the Nepali workers he had hired. Amidst conflicting speculations, Navin cut a deal with Ramesh Jain that he would be appointed an Arya-India representative in the United States with visas and logistics arranged by the company, and at the first opportunity, he and his family resettled in California. Sameer remained in Nepal and joined a training course on fashion design. A large number of Arya-Nepal<sup>3</sup> workers who had been paid lump sum severance packages by Navin and Sameer suddenly found themselves in a dilemma. On the one hand, after their employment ended, it was no longer possible for them to remain in Kathmandu; on the other hand they did not dare return to their war-torn villages with such large sums of cash in hand. Instead, a large number of the garment supervisors chose to seek new employment either in East Asian countries or in the Middle East, including hazardous destinations such as Iraq and Lebanon.

## Chapter 5: Rongoli

My second case study is Rongoli Pvt Ltd, a family-run factory exporting ethnic-contemporary garments to the high-end markets of the North American West Coast. Garment making was not a hereditary occupation of the factory owners who came from families of cloth merchants from Uttar Pradesh in India. The influence of their family profession was reflected in Rongoli's preference in garment designing: they focused more on use of fabrics and colour combinations than on cutting and fitting, as a conventional designing approach would entail. Except in one or two cases, all of Rongoli's designs were women's jackets, which followed standard measurements, apart from simple variations in length, sleeve or collar. The core of the designing in Rongoli was, as the owner put it, 'fabric-play'. For them, the main fabric was a blank canvas on which they carried out the design to produce collages, in this case, using traditional techniques of patchwork, embroidery and beadwork. Although they used traditional colours and combinations, a series of bold improvisations were introduced from time to time which gave the products an *avant-garde* look. When Rongoli was founded in 1988 it produced modestly priced quilted garments made of raw cotton aimed at the local tourist market, but it took a new direction after the Nepali government introduced its new industrial policy in 1992, which removed the import duty on export-contributing fabrics and paved the way for global integration. Instead of being confined to locally produced cotton, the new policy regime enabled Rongoli to import necessary fabrics in bulk from all over India, giving it the chance to take its creativity to new heights of industrial production.

### 1. The caste and family background of the owners

All of my local contacts who had heard of this particular caste group, referred to the owners of Rongoli as Marwaris. Except for the three designers, who were part of the inner circle of the Rauniyar family, all other workers in Rongoli thought their *sahu* (employer) to be a Marwari, and the various practices carried out in the factory on occasions to be Marwari ones. The Nepali census had also long categorised the businessmen from Utter Pradesh as Marwari caste. It was only when I got to know Gaj Raj Rauniyar, the proprietor of Rongoli, very well that I came to learn that the Rauniyars did not come from Marwar, a town in the north west of Rajasthan which is the origin of all Marwaris, but from the towns of Lucknow and Kanpur.

The Rauniyars saw themselves as *vaishyas* (the merchant caste) under the Hindu Verna system. The richer of the Uttar Pradesh businessmen, along with their more authentic Marwari counterparts, came to Nepal during the Rana regime to serve the affluent Rana families in their initial business undertakings. A number of textile and sugar mills established in Terai towards the end of the Rana regime had UP managers and business partners. This opened a route for the lesser UP businessmen who lived in the bordering areas and were keen to tap into various business opportunities in Nepal. Since the UP and Marwari businessmen along with other Hindu business communities believed in charity, they patronised a number of *basas* and *sattals* (charity guest houses), both in Kathmandu and on the route to Kathmandu. Although these charity shelters were built primarily to cater to Hindu pilgrims travelling to Nepal to pay homage to Pashupatinath, they also lodged business travellers and business seekers. The *basas* were especially associated with caste patronage of affluent Marwaris to their fellow castemen (Zivetz, 1992: 86).

Other Indian ethnicities had also been migrating to Nepal before or about the same time as the UP businessmen, in much larger numbers and greater capacities. In fact, the first Indian ethnic group to have come to Nepal were the original Marwaris. The first cohort of Marwaris had entered officially through the *pragyapan patra* (State letter of invitation) issued by the Rana rulers in 1929 to lead industrial projects in Nepal. Even before this, the first Rana Prime Minister, Jung Bahadur Rana, was said to have collaborated with a Marwari in the opium trade with China. The first modern industry in Nepal – a jute mill – was established in 1936 by Radha Kissen Chamaria, a Kolkata Marwari in joint partnership with Juddha Shamsher Rana (Gaige, 1975). The Marwaris did not enter as a unified ethnic group, but came to Nepal from all over North India and Burma. They did, however, share a number of common characteristics: they spoke the same language; were all merchants and all traced back their roots to Marwar, the north-west province of Rajasthan. Although ostensibly divided into two faiths, Hinduism and Jainism, the two religions were closely intertwined among the Marwaris owing to, and resulting in, frequent inter-religion marriages over the generations. For these reasons, Marwaris had a unified and strong ethnic identity (Timberg, 1978:50). When they came to Nepal, this identity provided a kind of ethnic flagship into which other Indian business communities, including the UP businessmen, assimilated. Only about 200 families in number, UP businessmen in Nepal had the option of either marrying into the families of Marwaris already there or going to various Indian cities to look for suitable brides and

grooms from their own ethnicity. Increasingly, people took the former option. In the genealogies I collected of ten UP businessmen in Nepal, more than half of them had at least one consanguine relative who was a Marwari.

Such a rapid ethnic assimilation of various Indian business communities with the Marwaris was a feature unique to Nepal that did not occur anywhere in India.<sup>67</sup> This may be attributed to the minority status Indians had in Nepal where the large majority were nationally, linguistically and ethnically distinct from them. In this regard, assimilation was based on need rather than choice. Such a phenomenon is comparable to Chalmers's discussion of how a strong Nepali identity emerged rapidly in various parts of West Bengal in the 1960s and 1970s among the various caste/ethnic groups who had migrated from Nepal. The vast majority of them, mostly Limbus, Gurungs, Magars, Newars, Tamangs and Kamis, swiftly switched from speaking their ethnic mother-tongue languages to speaking Nepali. Furthermore, a large number of Buddhist and Hindu Newars, who would previously have distinguished themselves from each other on the basis of their religion, went to the extent of abandoning their original surnames to adopt a generic surname of 'Pradhan' in Darjeeling, Kalimpong and elsewhere (Chalmers, 2003). An Indian equivalent of this Nepali phenomenon might be the rapid formation of the 'Marwari' identity among the otherwise distinct Indian ethnic groups who had migrated to Nepal.

It is important to note, however, that these were a number of Indian migrant communities in Nepal who remained untouched by this stream of ethnic assimilation that made all Indians Marwaris even when they were not. For example, South Indians, who had come to Nepal first as missionaries and later as teachers and programmers in the computer software industry, kept their identity and social structure distinct from the Marwaris; as did the Kashmiris who had migrated to Nepal after the Sikh occupation of Kashmir in the nineteenth century and more recently after the Indian intervention in 1947. One would immediately recognise the Kashmiris as artisans rather than entrepreneurs although increasingly large number of Kashmiris are now running shops selling Kashmiri shawls and jackets to tourists in Kathmandu. Kashmiris certainly did not trust other Marwaris

<sup>67</sup> Gellner and Quigley (1999) argued on the other hand that such melding of different caste and ethnic groups was a phenomenon that had prevailed in the Kathmandu Valley since the time of the Lichhavis in medieval times. They cite the case of the Rajopadhyaya and Kayastha Bahuns who had been brought to the Kathmandu Valley for their priestly knowledge and who later assimilated into the indigenous Newars of Kathmandu Valley.

and other Indians on matters of their financial or artisanal secrets. The same could be said about the South Indians – that they were primarily intellectuals and not entrepreneurs. A further reason why the South Indians did not assimilate with the North Indians in Nepal as elsewhere probably had to do with their language and religion.<sup>68</sup> This gives one reason to believe that in the same way as the Nepali diaspora in India unified itself on the basis of common origin and common language, it was the thread of common vocation and occupation, which wove the various Indian ethnic groups into a Marwari identity within Nepal. In this respect, the Marwari identity can be seen as comparable to a guild or an informal business association.

Currently, the status of the Marwaris, some of who are by now third or fourth generation migrants, is analogous to the Rajopadhyaya Bahun Newars (Toffin, 1999: 197). They have physical features distinct from the local Nepalis but most of them speak fluent Nepali.<sup>69</sup> Yet they all have a distinct Marwari identity, no doubt strengthened by their common experience as immigrant entrepreneurs, of a certain degree of alienation and sometimes resentment from the local people – a global experience for minority capitalists as shown by Bauer and Yamey (1957: 111). What it meant to be a Marwari in Kathmandu was, first, to have access to capital, whether large or small; to contain readiness for business opportunities, risks and calculations, and to have had exposure to Indian cultures beyond the experience of most indigenous Nepalis.

Gaj Raj and his wife Sabitri wore broader Marwari-Nepali identity like a second skin. As was pragmatic for other Marwaris in Nepal, Gaj Raj and his family did not talk much about their origins. Unlike most other Nepalis who nurtured nostalgic memories about their past, Gaj hardly ever initiated a discussion about where his ancestors came from. It was only upon inquiry that he revealed that they were originally from Uttar Pradesh but emphasised that they ‘had become’ (*bhaisakyo*) Nepali and that they had no more ties

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<sup>68</sup> While the North Indians spoke Hindi as a lingua franca and were largely Hindus, the South Indians either spoke Malayali or English and a majority of them were Christians.

<sup>69</sup> The Marwaris speak Nepali with a mild Indian accent depending on how long they have been in Nepal. Third or fourth generation migrants speak fluent Nepali while those who arrived more recently speak what is commonly called ‘Madheshi-Nepali’ (broken Nepali spoken with a strong Madheshi accent). Those who live in the inner part of the city which have traditionally been the Newar strongholds often speak Newari in addition to Nepali. It was my general observation that men speak better Newari than women, which may be a reflection of their relative exposure to the surrounding culture and social groups.

left with India.<sup>70</sup> Gaj's grandfather was a cloth merchant in a small village in Uttar Pradesh who had migrated to Birganj in the eastern Terai of Nepal during the Rana regime. Both his sons continued the family business in Birganj and other Terai towns, as did their sons. The youngest of the five sons in the third generation, Gaj was sent to Kathmandu Valley to pursue higher education. The only daughter of this family married a businessman in Kathmandu, and with this new personal connection Gaj had more reason to move to Kathmandu from Birganj. During his Intermediate and Bachelor level studies, at the commerce faculty of Tribhuvan University of Kathmandu, Gaj was already running a cloth shop in Makhan in Kathmandu Durbar Square which was and still is the hub of the local textile trade. He also pursued some hobbies that distinguished him from other Kathmanduites: for example, he was an amateur boxer, studied French and was an active member of the Rotary Club of Kathmandu. All these extra-curricular activities helped him build good networks among the elites and semi-elites in Kathmandu, and also gain experience in various business ventures. On a number of international trips he made as a Rotarian, he brought back with him auto-loom saris, ready-made garments and models' posters from Bangkok and Hong Kong, to sell to Kathmanduites.

Gaj fell in love with Sabitri, the younger of the two daughters of his shop landlord. Sabitri's family were from the same region of UP as Gaj. The two families had an agnatic relation separated by only four generations but their traditional norms required a separation of at least five generations for any conjugal ties to be socially acceptable. When Gaj and Sabitri decided to marry despite this they could not wed customarily but had to elope instead, returning to their community only after matters had settled down. Gaj lost his cloth shop as a result of the complications arising from his marriage to Sabitri.

## **2. Tracing the factory history**

Soon after marrying Sabitri in 1978, Gaj borrowed six thousand rupees from his elder sister to start a ready-made garment shop in Makhan in Kathmandu Durbar Square. The shop employed one Damai (the so called untouchable tailor caste) tailor who sewed a series of quilted garments using plain cotton fabrics, as was popular among tourists visiting Kathmandu in those days. They often combined fabrics of four or five base colours, which were the products of simple colouring techniques developed indigenously

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<sup>70</sup> However, Gaj's in-laws still had close marital relations in Lucknow and parts of Uttar Pradesh although neither Gaj nor his in-laws particularly emphasised this during their conversations with local Nepalis.

within Kathmandu, and sewn into easy to wear, free-size garments. What made the garments striking were the complicated quilted patterns used. It is in this respect that Gaj's garments were cleverer than others, for example, some of his jackets folded neatly to make children's bags. Such tricks made him popular not only among the tourists but increasingly also among expatriates living in Kathmandu. In the 1980s, with increasing developmental interest in Nepal, expatriates were fast emerging as a new elite group and networks developed with them through business or social activities helped Gaj and Sabitri get wider exposure to the clothing tastes of non-Nepalis.

Gaj recalled counting about fifteen shops in Kathmandu that sold similar garments at the time he started his shop. As the market for souvenir garments grew, people from different walks of life, including those who had originally sold handicrafts, joined the industry.<sup>71</sup> The early starters had an advantage; when the latecomers were still catering exclusively to the local tourist market, some early starters had already started to export, initially to Japan and later to European countries. Gaj also started to supply a local agent exporting to Japan, Manandhar Exports Pvt Ltd, run by an important public figure who later rose to become the Nepali ambassador to several Scandinavian countries and whose son became the President of the Nepalese Chamber of Commerce. Through the network he developed while working for this firm, Gaj secured his first direct export order, to Japan, in 1980.

Gaj had to officially register his factory as Oriental Boutique in 1980 to qualify for the export order he had already received.<sup>72</sup> The order was from a Kobe-based Japanese company called Amina Collection Pvt Ltd, was worth approximately fifteen thousand US dollars and involved the manufacture of what was called *kozak monto*, a traditional Japanese dress with long sleeves and hood, often in plain white, made out of locally-produced coarse cotton. Each piece earned Gaj USD 19.5, which was a handsome price by then current garment standards. The buyer was happy with his work and Gaj continued to receive regular orders. Although Gaj later also supplied garments for a third Japanese company based in Kanagawa Kamakura, only Amina Collection placed orders

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<sup>71</sup> Gaj and others recalled that, at the time he started his shop, there were many more handicraft shops in Kathmandu than garment shops.

<sup>72</sup> One of the reasons why many businessmen did not register their businesses had to do with the taxes as well as the long bureaucratic procedures attached to the task. Gaj also did not register his factory until he received export orders and paperwork became necessary. Although the workshop was in Tahachal in Kathmandu district, the official address given was that of an area in Lalitpur because tax rates were higher for the Kathmandu district.

directly with him and so he was most loyal to them.<sup>73</sup> In the meantime, however, he also started selling wholesale to, and taking orders from, a number of American buyers, some of whom soon became regular customers.

Gaj found working for the Japanese very different from working for his American clients. He noted that Japanese clients not only gave very detailed instructions about colour, cut and measurements, but measured the finished garments to the last inch upon arrival. His market in Japan was exclusively comprised of Japanese ethnic clothes, an area he knew little about. He had made two business trips to Kobe and Yokohama, during which, with little knowledge of Japanese language and culture, he had found Japan rather impenetrable. Compared to this, his American buyers were experimental themselves and gave him more manoeuvring space in terms of design and manufacture. Hence, although the Americans were buying lower-priced items from him than the Japanese, he did more business with them. He said his principle at that time was that one must never say 'no' to customers. This was clearly a phase of expansion and growth for Gaj's business.

In 1988, Gaj moved Oriental Boutique to a larger building. He also took this as an opportunity to reinitiate the necessary paperwork with the Department of Industries to register it as a new body, called Rongoli Pvt Ltd. The reason for this was that the business had grown enormously and because he had been too busy, he had not managed to do the *milaune* (adjustments) on his paperwork so as to clarify and pay off the tax due on Oriental Boutique. The new entity responded well to a number of important changes looming on the horizon that were about to set Gaj's business on a new course. In the five recurrent discussions I had with Gaj and Sabitri (separately), both of them always mentioned the three trips to the United States that Gaj made between 1987 and 1992. The first was with one of his American buyers (and also a family friend) who had invited him to a trade fair in Los Angeles, the second an ordinary business trip and the third to explore the possibilities of migrating to the US as some Nepalis had started to do around that time. After a month-long stay in the US on this last trip, he finally decided not to migrate, believing that there were better opportunities for him to earn a *sukhako jeewan* (happier life) in Nepal. Upon his return, Gaj learned that the government had issued a new industrial policy, marking a radical shift from a protectionist to a free-market

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<sup>73</sup> Unlike business with Amina Collection which continued to date (though on a much reduced scale), Gaj's work with the other distributor in Kanagawa Kamakura was *ad hoc* at best. His alliance with Manandhar Exports was short-lived.

regime, which measures, among others, included the scrapping of import duty on textiles for exporting industries.<sup>74</sup>

This important policy change, for a cloth merchant like Gaj, was like the ‘opening of a new door’ in that he was no longer constrained to locally produced textiles, but could tap into the vast textile industry of India for his production. He did some cautious experiments in producing higher standard garments, and they paid him well. Deciding to expand his business in this line, he realised that he needed a stronger commitment from his buyers in order to succeed. He told me about his considerations and dilemmas at least three times, and I heard him talk about this with several others. The following are excerpts taken from all of his conversations. I have underlined the words said in English as they seemed to be more emphatic, especially in cases when the use of English words did not come across as habitual use.<sup>75</sup>

‘..... In Nepal, you know well, ...., it is extremely difficult to do business. Not because this is a poor country and we don’t have skills and goods to sell, but because the government does not give any facility, and nothing moves until you bribe ten people if you want to bring anything (i.e. raw materials) from India. There is no way we can produce anything cheaper than India..... And another problem is, in this country, most people are the kind who would not think what new work one could possibly do, what new designs one could possibly create, but they would steal anything and copy whoever is in the front. Herd mentality. The result is that buyers start to become choosy. If prices of garments are increasing in other places, they are decreasing in Nepal because we compete among each other and in that *chakkar*’ (jumble), we go on buying each other out. That’s why, I thought, let’s do something new. Let’s start making garments of our own creation, such that the buyer won’t look at the prices when buying them.’

‘..... otherwise, ...., what is Nepal? In the United States, whose markets we are so dependent on, how many people there have ever heard of Nepal? Given how many choices of garments they have that are coming to them from around the world, if our goods are not unique, we will be lost in the crowd.’

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<sup>74</sup> In principle, export industries were exempt from import duty prior to the industrial policy in 1992. They had to pay 15-30 per cent duty upon imports with the understanding that the government would reimburse this within sixty days of clearance of the export shipment. In practice, the procedure took much longer than sixty days and included complicated paperwork which was not easy for a lay businessman without special connections to deal with.

<sup>75</sup> There were some exceptions in his use of English words, for example, some were that were used out of habit or were used due to the perceived technicality of the task.

‘... what I thought was, ..., one gets into the problem of cross-supply when one supply[ies] to five buyers, that is, concentration on one’s work means ‘dhilasusti’ (delay and neglect) in others’ work. That is what kills quality. That is good for neither party. And another thing is, ..., it is very difficult to do business without trust and loyalty. ... This business goes through various inflows and outflows of money. For example, one day I have *lakhs*<sup>76</sup> of rupees of bank balance and the next day it is nil. When I am buying fabrics, I am running an overdraft. It becomes difficult to do business without having a good understanding with customers at such times.’

‘...by loyalty, I don’t mean buyer’s khutta dhogne (putting one’s head on the buyer’s feet) as they do in other factories. What I mean by loyalty is, let it be so that the buyer and the producer have mutual loyalty for each other. That would happen when they are growing together ... so they feel they need each other.’

[Gaj, Rongoli, in a series of conversations throughout my fieldwork]

In December 1992, Gaj made an important change in his business that would dramatically transform its course in the coming years: he dropped four of his regular customers in order to invest in building long-term bonds with only one. Gaj’s first and largest buyer was an American who traded not only garments but also South and East Asian antiques. Although Gaj was his sole garment supplier, his antique business was larger than his garment one. Gaj’s second buyer was a young carpenter from Seattle who was only just beginning to develop his business; he bought all of his garments from Rongoli and had no intention of diversifying. The third largest was an American-Chinese woman from Santa Barbara in California who bought not only from Gaj but several other countries and had many other businesses including real estate and a petrol pump chain. His fourth buyer was from Beverley Hills who was also buying woollen-wear from Guatemala and other Latin American countries in addition to garments from Nepal. The fifth was a company in California who ran a showroom and distributed garments and accessories from Nepal, India and countries in East Asia.

Of the five, Gaj said he had the strongest preference for his first buyer who had also become a close family friend by then. He was the one who had invited Gaj to a trade fair in Los Angeles in 1987, and Gaj had named his younger daughter after his daughter. However, the friend had recently been diagnosed with a tumour and had chosen to close down his garment business and focus only on antique dealing. This eliminated him from the list. From the four left, Gaj chose his second largest buyer, the young carpenter from

<sup>76</sup> A hundred thousand rupees is regarded as a *lakh*.

Seattle. Gaj thought that the buyer showed serious interest in doing business in Nepal, and that the buyer's wife had a genuine interest in garment designing and marketing. Better still, they were fully dependent on Gaj as sole supplier of their business and given that both parties were at the initial stages of their careers Gaj thought they could grow together. This informal agreement lasted well in Rongoli and was continuously reinforced by the friendship between the two families.

One can draw a number of inferences from developments in Rongoli. First, that Gaj's wider exposure to his customers' worlds, and possibly his intergenerational roots in business operations, helped him make a more realistic assessment of his business strengths and weaknesses as well as market demands. Second, and more importantly, his assessment then led him to seek a higher degree of trust that would not only potentially give him access to larger finance, but also minimise the risk and vulnerability inherent in the business of garment-making. This form of trust shows the limitations of the traditional notions on trust. For example, the trust that Gaj sought was not with members of his agnatic, consanguine or spatial kin, but a pragmatic alliance with a total stranger to his land who spoke a different language and followed a different religion. This trust would not help Gaj seek remedial measures if his buyers were to renege on his commitments because they operated in totally different legal and institutional parameters, where one had little recourse to the other's institutions. Neither would this trust translate into scope for reputational jeopardy since the two parties dwelt in different social worlds. What this trust did help create was some degree of inter-dependence in their business, functioning as a lubricant to facilitate deepening the thrust of their transactions.

Once this bond had been chosen and established, various investments were made, mostly on Gaj's side as the one more dependent on this relationship, to nurture and transform it into something that might come to resemble the bonds of kinship. Both parties respected each other's opinions of merchandise valuation and profit division so that there were hardly ever any disagreements over price or scheduling. Gaj not only built a permanent guest room in his residence for the buyer and his guests to stay during their trips to Kathmandu; he regularly entertained them and even arranged for his shopping, cultural tours, dinners and even for barbers to give him haircuts and massages at home.

### 3. Rongoli garments

Rongoli is located in a four-storey residential building in one of the upmarket residential areas of Kathmandu. This was a spacious suburb when the factory was newly established in 1988. However, it became more and more crowded over time, and after the new commercial law of 1996 prohibited housing of large factories inside the Ring Road, only one or two factories remained in the area.

A year after the factory was established, the family took a *dera* (rental house) only a block away, which they later bought and extended into a handsome residence with garage, guard-house, a professionally landscaped garden with small pond, etc. In contrast, the factory, after sixteen years of gestation and growth, had not changed much. The roof top terrace had been covered up (using corrugated zinc plates) to make a new room for cutting fabrics, and the workers' quarter had been expanded but that was all. The building maintenance seemed to be low although the rent had increased threefold to reach 65,000 Nepali rupees. As was common between several other landlords and tenants, there seemed to be frequent disputes between Gaj and his Newar landlord about the lack of building maintenance. The building became more and more congested each year as the number of workers increased and its textile stock grew enormously. Three of the rooms were then being used as fabric storage but fabrics seemed to be increasingly piling up, taking up more than half the space in the accounts section (coarse cotton, often white), designers' room (more expensive fabrics – silk, velvet, linen, polyester, rayon, chenille, etc.), in the corridors (old stocks of coloured cotton) and the owner's office itself (brocade, leather and all other newly acquired fabrics). The factory once had a name-plate which distinguished the building from the residential buildings that had sprung up in the neighbourhood over time, but it was removed after labour-related problems. Now, the modesty of its appearance easily cloaked the richness of its inputs stored inside.

The stock of fabrics in Rongoli was by far the most impressive of all garment factories I have seen in Nepal. When I asked Gaj if the duty refund entitlement did not lapse when one kept such a backlog of (imported) fabrics,<sup>77</sup> I was told that it was not a problem because he had *afno manchhe* (personal contacts) in the customs office. Only much later did I learn that since Rongoli garments were so different in design and inevitably

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<sup>77</sup> The government returns the duty paid on imported fabrics only if the finished materials are exported within 11 months. With such extensive stocks, it would have been impossible to use it all within that time.

combined four or five different fabrics to produce one individual garment, the government GSM estimating department<sup>78</sup> had allowed Rongoli to submit individual estimates of its fabric consumptions – and, of course, over the years, Gaj had developed friendly terms with the officer(s) in charge. For example, although the standard GSM allowed for a lady's jacket was 2.5 metres, Rongoli had a concession which allowed it to claim up to 6.5 metres of (multiple) fabrics. He said that 'playing' with the GSM was something that was *nagari hundaina* (unavoidable) in order to stay competitive in business.<sup>79</sup>

'My business is all about playing with fabrics... Fabrics are my passion; our family lived with fabrics for generations, and I feel my world remains about fabrics. The moment I see a new fabric, I start playing with it in my mind.' This was how Gaj described his business. More than the production steps, he emphasised 'involvement from the beginning' of all parties (himself, designers and buyer). He hardly ever said anything about the cutting and measurements of his garments, but talked endlessly about the choice and combination of fabrics, colour, embroidery and decorative work. There was only one mannequin in the entire factory which was used for modelling garments of all sizes, indicating that Rongoli was not very specific in its cuts and fittings. Gaj's ancestral deity was Annapurna – goddess of cotton and cloth. He always described his business as about *kapada* (cloth) and never about *luga* (clothes). When his conversation was interrupted, by phone or visitors, Gaj often came back to it with a reference to cloth and an abundant pile of cloth samples lay on his work table at all times. These minor observations indicate that his vision of the factory largely focused on cloth or *kapada* rather than clothes or *luga*.

Fabrics or *kapada* were defined by the number and make of *tana* (warp) and *bana* (weft). A standard fabric was referred to as 60x60, i.e. it had 60 yarn units of warp per inch and 30 yarn units of weft per half inch. Warp was always measured in inches because this was manually set yarn and thus prone to some variation, whereas weft was mechanically (if not automatically) woven and so was measured in half inches. Thickness-wise, yarn came in three kinds: cambric (fine), sheeting (medium) and casement (thick). In each,

<sup>78</sup> GSM - Garment Standard Measurement

<sup>79</sup> In addition to this, the Shipping Manager described to me another method of fabric saving. Although the fabric made by large machines and formal mechanisms would have a standard measurement of 374 metres in 1 *thaan* (bolt), smaller and more informal weavers going by the old systems would sometimes have 594 metres per *thaan*, and it was not very difficult to get the labels dropped through the *angithiyas* (traditional shipping agents) and Rongoli frequently did so.

the yarn thickness ranged from 0 to 20 where 0 was the finest. A standard yarn was scaled at number 12. Rongoli worked on fabrics of all three kinds and twenty scales, and added to these the regional ethnic arts of beadwork, mirrorwork, cutwork and embroidery in order to create a fusion that would have an 'ethnic-contemporary' look. The fabrics most frequently used were plant and animal-based such as chenille (often in sheeting), cotton (in casement), rayon (in cambric), linen (in cambric), silk, wool, soft leather and man-made fabrics such as polyester, velvet, brocade, etc. A common feature on almost all fabrics chosen was that they were handloom woven apart from one or two such as polyester and velvet. While coarser fabrics were often used as the canvas, finer fabrics were pasted on top using different kinds of patchwork techniques originating in various regions of India.

There was no set order or timetable for production in Rongoli, nor were there clear distinctions between the roles of various individuals within the factory. The division between buyer and producer, owner and designer or between owner and wife were all very arbitrary and took on different dimensions at different times. The only set framework Rongoli had was the production schedule, based on the seasonality of the American fashion industry (see chart).

### Production schedule in Rongoli

Months	Tasks usually carried out
January February	Designing for Fall. Production and shipping for Spring based on orders that had been secured last year.
March April	Designing for 'holiday & resort' as well as late fall. Production and shipping for summer based on orders received the previous 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 the most work-intensive period in Rongoli. Often these designs resulted in orders for winter and fall colours in which case the colour combination would be changed to give them a new look.

### 3a. Designing: ‘a musical concert’

The US spring and summer fashion shows were more elaborate than the winter and fall ones and most purchase orders came from the former. In order to exploit this, Rongoli developed light summer jackets, which also gave more scope for decorative handwork and flamboyant colour combinations. The buyer or his wife often travelled to Nepal in late August, just before the task of summer/spring designing started. This was the busiest time for Gaj, his designers and their helpers in the cutting, tailoring and decorating units. Once the samples were despatched, the factory closed down to celebrate the festival of Dashain and the workers were given their Dashain and Diwali bonus.<sup>80</sup> The factory then remained relatively calm until it was time to design the fall/winter range where often colour variation techniques were used to revitalise the original spring/summer designs.

Gaj and his designers often talked about fashion designing as a ‘musical concert’ where everyone had to fulfil their own role as well as cooperating with others. All designing started with receipt of the ‘inputs’ from the buyer, which included a collection of fashion magazines from the leading designers and fashion events in the US and Europe, as well as a collection of (non-technical) sketches and designs that the buyer and his wife had recorded throughout the season. With these materials, the Rongoli designers turned to their choice of fabrics from storage. I was told that there were two ways of designing: ‘sketch-to-textile’ or ‘sketch-from-textile’ the former being more conventional. However, since the core of Rongoli designing was the play on fabrics, and it had such a large stock of fabrics available to it, the latter suited them better.

Gaj often reminded his designers that a ‘true designer’ would act throughout his designing as if he had ‘ants in his pants’ – clearly an American expression he had picked up. The factory would be mobilised thoroughly during the design season, with sketches changing hands (and minds) between Gaj and the designers innumerable times and the sample clothes going back and forth between the designers, decorative-workers and tailors. Every season approximately 30-40 sample pieces were shipped to Seattle. I was told that up until six or seven years ago, they produced only three or four designs which garnered enough repeat orders for a couple of years, but due to growing competition, currently they did not expect much repeat order business, and thus the number of designs per year seemed to be ever increasing.

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<sup>80</sup> Diwali was a more important festival for the Marwaris, however, as per local norms, workers were paid bonuses for Dashain and not Diwali. The bonus was equivalent to a month’s salary.

The main fabric that was chosen for designing would serve as a blank canvas on which the artwork was carried out. As a rule of thumb, any artwork was developed keeping in mind the nature of the canvas chosen. They were mainly of two kinds: if plain fabric was chosen, it would be decorated with ‘patchwork’ or ‘cutwork’ following either the *watchikan* technique of Kashmir or appliquéd technique of Jaisalmer. Both of them involved patching a different piece of cloth onto the main platform to form large motifs, of Hindu (with distinct shapes of animals, birds, flowers and humans), Jain (even bigger motifs mostly of larger animals such as cattle), or Muslim (with abstract floral, plant shapes, almonds, fruits, etc.) art. Often, less expensive fabrics would be used as the canvas on which more expensive fabrics, e.g., Benarasi *kinkhwab* (rich and kingly brocades woven with heavy use of *jaris* – gold and silver threads), *amrus* (brocade in pure silk), *asavalli* (with large motifs as in sari borders), soft velvet leather, etc., as the patches. An important feature in this technique was that the traditional art forms were largely improvised in their applications. For example, Kashmiri motifs were traditionally very intricate, colours delicate and the embroidery done with detailed stitches. This was not what Rongoli did. Almost always they worked with larger and coarser motifs, flamboyant colours and bigger stitches. Still a lot of the abstract motifs, e.g., of *badam* (almond), *sarav* (cypress), *pamposh* (lotus), *sosan* (iris), *dachh* (vine), *yambarzal* (narcissus) and *dainposh* (pomegranate), were largely derived from traditional Kashmiri motifs, and Kashmiri vocabulary would be used during production instead of using Nepali words for them. Rongoli would also use machine stitching, turning to handwork only when it was impossible to use the machines. In this way, even at the sampling stage, traditional crafts were adapted with a great deal of improvisation.

If the fabric already had motifs, then it would be decorated with beadwork, mirrorwork or stitchwork, using the motifs as the base. The most widely followed decoration technique was machine-embroidery. Gujarati *jardoshi* (using beads) would be applied by hand and if large empty spaces remained in the fabric, they would be filled with mirrorwork, now done using silicon plates instead of real glass, as was traditionally the practice in the art’s Gujarat homeland. The most suitable fabrics for these techniques were silk *tanchoi*,<sup>81</sup> Bengali *baluchari* of Benares with large diagonal motifs, and

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<sup>81</sup> This was designed initially for strict Muslim precepts which prohibited men from wearing silk. The *tanchoi* used silk warp but cotton weft and then added a layer of cotton yarn in between the warp and weft which fully separated the silk from the cotton, making it acceptable under the religious requirements - hence the name *tanchoi* (which touches the body)

*jacquard* weaving.<sup>82</sup> None of the Rongoli designs had patchwork on printed fabrics, and none of the patches were multicolour – that was considered to raise the problem of ‘idea conflict’. There was however one exception made where plain white cotton was tie-dyed using the *leheria* technique,<sup>83</sup> and then decorated with patchworks of abstract and large floral motifs made with thin multi-colour polyester strips not wider than 0.2 inches. This was one of Rongoli’s earlier designs, and had brought them repeat orders over the years. However, they felt that the technique did not give much flexibility for creativity, so, while they continued to use these designs in other variations, they stopped combining *leheria* with the patchwork.

The designing seemed to undergo a number of phases. Even as a novice learner of their art, I could identify some designs which were different to others. In several such cases I was told that there were older designs being reproduced for repeat orders, including the one I described in the preceding paragraph. While most of these contained primarily Indian motifs of flowers, plants and animals, some of the new designs had started using symbols from beyond India, e.g., Mohala icons from Latin America, and ocean icons such as starfish, shells, palms etc from the beach resorts. The earlier designs were almost always based on bright, summer colours because earlier they designed only for the spring season. It was only in the past five years that they had started following the full US fashion season calendar and creating designs for the winter and summer in addition to the spring season. Also, it was only when they switched to the all-season market that they started following the colour and fashion forecasts from the Western designers more meticulously.

Rongoli had three designers: one had been there since the beginning of Rongoli, and had almost become a part of the owners’ family;<sup>84</sup> the other two were much younger and had worked there for only about a year. It was natural that the former commanded higher respect from the fellow designers. Whilst on the surface they all worked in harmony, I noticed that Gaj would have relatively longer and detailed interactions with Seema

<sup>82</sup> It was Joseph M. Jacquard who had invented the special loom which would add an extra weft automatically, thus making the weaving process more efficient. This was first exhibited in the Paris Exposition of 1801. In 1909, however, the Indian Institute of Handloom Enterprises (IIH) modified it to incorporate this automatic extra-wefting technique into the handlooms to avoid having to depend on a *saathi* (friend) who would put in the extra weft after each layer woven (Ranjan, 1992: 39)

<sup>83</sup> It involved a colour combination of pre and post dye colours which would be developed by tying some knots on the cloth but leaving other parts of cloth untied. The effect was that of a wave-like pattern which is what the word *lahar* means.

<sup>84</sup> She was regularly invited to family occasions, and some photographs of her hung in the house of the owners alongside the family portraits.

Shrestha, one of the two new designers, about some of her designs. I also noticed that her designs were slightly different from the Rongoli norm. Hers lent more to geometric patterns while the others mostly used curved lines. She used more leather to do her patchwork, others combined leather with fabrics. Her patches were smaller and more intricate, making them more difficult to replicate; the other designers paid much more attention to feasibility of production at a larger scale. This may be due to the difference in training they had received: Seema was trained at a prestigious fashion design institute in New Delhi and had had some work experience in a modern design company there; the two other designers were trained in *ali kam* (lesser) institutes and had had no experience before coming to Rongoli. Counter-intuitively, Seema's longer training and experience seemed to work against her. The second junior designer, Namita Thapa, appeared to have internalised Rongoli designing better. Although her designs had only average sales and none were hits, they fitted in well with the Rongoli designing prototype.

The differences became clearer in the coming few months. Gaj once told me that Seema was often not quick enough to capture where buyer's 'eyes were going,' and that her designs were 'tense'. Gaj's nuanced treatment of the three designers also showed where they stood in the hierarchy, for example, while Gaj's car picked up and dropped the senior designer to and from work, the other two were only given a ride part of the way home, and when the senior designer did not come to work, there was no ride for anybody. Gaj and Sabitri had lunch with all three designers, but the two junior designers were rarely asked for their food preferences. Once Seema tried to go out to lunch but was told that she should just ask Gaj for whatever she needed and not go out herself. She never felt comfortable enough to mention her likes and dislikes to the Rauniyars, and preferred to ask me to bring certain pickles or desserts to accompany the meal. Over time, the task of designing became lengthier and lengthier for Seema, and to a certain extent, for Namita. Gaj once told Seema plainly not to leave for the day until she had finished the design she was working on – a comment he and Sabitri would never had made to the senior designer. While originally Seema and Namita produced 8-10 designs each out of the 35-40 submitted to the buyer every season, in the second fall-sampling (October 2003), Seema produced only four designs and Namita seven. After a few months, Namita quit when she became pregnant. Seema was let go.

On reflection, Gaj said that it was not a good idea to hire young girls in a formal capacity as designers as it took a lot of patience and hard work to internalise the type of work

Rongoli did and be *sanchikai garna sakne* (truly capable of the job) for the factory. He then hired another designer to replace Seema and Namita, but 'just for the time being'. Nevertheless, he planned that the next batch of new employees would be hired as trainee designers who would be given a paid apprenticeship for the first two years, with longer employment prospects being offered only to the select few who showed the potential of *bhijna sakne* (soaking up) Rongoli designing culture.

### **3b. Production: a 'wife's department'**

Gaj and Sabitri both worked long hours in the factory, to the extent that they ended up sending their younger daughter to a boarding school for several years. The job division between the two was never official, nevertheless, in my initial interviews I was told that Gaj was responsible for merchandising, design and transactions and Sabitri for supervision of daily production and quality assurance. For Sabitri to be able to do her work, Gaj had to ensure that there were orders on the books and that the right fabrics and accessories were available to work with. This symbolic dependence prevailed at various levels.

Production started with the cutting of the fabrics.<sup>85</sup> Rongoli had two cutting masters who were referred to as *masterjis* (teachers, experts). One came from the eastern hills of Nepal and had trained in New Delhi, the other came from New Delhi and had worked there too. Fabric cutting was carried out using an electronic machine. Although the machine was capable of cutting in large volumes, its capacities were underutilised in Rongoli because they rarely made more than fifty or a hundred pieces of any one design. The challenge of cutting, however, lay in handling the patchwork and embroidery. If the garment used patchwork, the *masterjis* would also have to cut the various patches in addition to the main *pallas* (body parts). Each individual garment took 6 to 20 patches of floral, plant and animal motifs. This involved delicate handling of fabrics and a great deal of patience in getting the curves right and finding the most cost-effective use of them. If the garment needed embroidery, then it would be cut into an individual base first without cutting the curves. They would then be sent to the artisans, often subcontracted, who would do the embroidery. Once the embroidered pieces came back, the curves and lines would be cut. This was clearly one of the most difficult tasks in the overall production. Not surprisingly, *masterjis* were the highest paid staff in the factory

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<sup>85</sup> Since Rongoli used paper patterns for samples, they reused the same patterns for fabric cutting which effectively skipped one step of production that would have been a crucial one for other factories.

after the senior designer, as the financial risk involved in cutting made it important that it was strictly regulated.

It was mandatory that the cutting masters get an authorised signature on the fabric before they carried out any cutting. This sounded like a simple procedural step to me until I came across a specific incident. One day, Sabitri who was supposedly in charge of production, authorised one fabric cutting because it was only the *bhitri* (inside layer) of the jacket and she needed it urgently to keep the *kaligadhs* (artisans) busy. As soon as Gaj found out, he did not speak to his wife about this, at least not in the factory, but called the *masterji* right away and reprimanded him for more than an hour. The *masterji* was warned against another such ‘blunder’ and was firmly told that it was absolutely important that he (Gaj) signed every *palla* himself or else it would be him (the *masterji*) who would bear the consequences if anything went wrong. The reprimand then went on to emphasise the importance of ‘loyalty,’ ‘risks of the act taken,’ ‘clear leadership,’ etc.

Once the *pallas* were cut, they would then go to the tailors who worked on the ground floor. Rongoli had 152 workers – 5 Newar tailors, 26 Damai caste tailors from the Nepali hills, 27 hereditary tailors from the Terai (mostly from Lahan), 28 Hindu and Muslim Indian tailors from the bordering areas (Bihar and Uttar Pradesh) and 66 un/semi-skilled workers and administrative staff.<sup>86</sup> The Newar tailors were called *sujikars*, all of whom were Shakyas, Bajracharyas or high caste urban dwellers, and came from Lalitpur. They tailored only the sample pieces, worked in a room on the second floor, and were paid regular monthly salaries as opposed to piece-rate wages. The other three groups of tailors who worked on the ground floor were called *kaligadhs* (artisans). They worked in three different rooms assigned according to their ethnicity. The floor supervisor told me that they spoke different languages and listened to different radio programmes and songs, which was why they preferred to work in segregated rooms. This had some truth in it.

Loud music, often from commercial Bollywood movies of the 1980s and 1990s that would drown out the noise of the sewing machines was a compulsory feature in all the garment factories I visited. The Damai workers’ room in Rongoli was among the few where I heard Nepali folk songs being played instead of Hindi music. They also regularly listened to Nepali news. The Indians and the Lahan workers, referred to as

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<sup>86</sup> The numbers of Lahan and Indian workers varied from time to time.

Madheshis by the hill tailors, listened to Hindi songs. The Lahan workers spoke Maithili among themselves and the Indians Bihari Hindi or other dialects. Although most Nepalis speak some Hindi and listen to Hindi music, the Nepali workers' room rarely had Hindi songs playing. Nevertheless, music and language were not the only reasons why the Nepalis preferred to segregate themselves from the Madheshis. Their wives worked with them, and they did not like the idea that the *joī nabhaikaharu* (wifeless ones)<sup>87</sup> would be anywhere near their women. Among the Nepali workers, often, men were said to do 'more difficult parts' of tailoring while the wives 'helped' the husbands and took care of the children. The children returned to the factory from school and did their homework or played until it was late evening and their parents finished work and returned to their rented rooms in the nearby houses.

The various ethnic groups of *kaligadhs* also followed different working schedules. For example, the Indian Madheshis, most of them Muslims, took Fridays off whereas the Nepalis took Saturdays. Major religious festivals were at different times: Nepali Hill Hindus took days off for *Chaite Dashain* (April), *Janai Purnima* (August), *Teej* and *Indrajatra* (September); the Lahan Hindus *Chhath* (December) and *Holi* (February) and Muslims travelled home for *Eid Al-Addha*, *Ramadan* and *Eid Al-Fitr*. The factory remained closed for a few days at *Dashain* and *Diwali* – national festivals in the country. This was distinctly different from most other factories where workers were expected to follow an official festival calendar issued by the government, except for the major Muslim occasions, when they were allowed to take days off. In Rongoli, where the workers were allowed to develop their individual working schedule based on their traditional calendars, it was more practical for the supervisors to assign separate rooms for each group. While most of the Nepalis had been in the factory regularly for several years, the Muslim workers often came for one or two seasons and went home for longer holidays and agricultural work, being replaced by others until they returned. This was one more reason why the Nepalis who had been in the factory regularly for more than ten years, preferred to stay in their own circle. Although the workers were ethnically divided, there was little resentment between the groups: Rongoli ran smoothly even during the anti-Indian riots of January 2001, which had forced several other factories to close down for several days (see Section 1 of Chapter 4). Not much changed on the Rongoli factory floors even at a time when the Maoist proselytisation of the garment

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<sup>87</sup> The Madheshi migrants left their women behind when they come to Kathmandu for temporary work.

workers brought several mass manufacturing factories to a standstill (see Section 2 of Chapter 4).

When it came to wages, the level did not differ among the ethnic groups, but payment methods did. Each Madheshi worker would be given 50 rupees a day, but most Nepali workers would get 100 rupees because unlike the Madeshis, most of them had families. The rest of their earnings would be recorded in their *khata hisab* (accounts). The Madheshis went home at least once every couple of months and they left without definite prospects of returning. Hence, it was customary to ensure that they have their *hisab chukta* (accounts cleared) before they left. Since the Nepalis stayed for longer periods, their accounts ran for years. They did travel to their villages for Dashain, but they would receive a *peshki* (advance payment), as opposed to clearing their accounts. Gaj said he believed he was helping the workers to save by disciplining their consumption. The eldest of the hill workers admitted that he currently had *ghaderi jodne paisa* (money enough to buy a piece of land) held with Gaj but also aired complaints about difficulties he had had in the past in getting money out of the *sahu*'s (owner's) hands.

Clearly, the ethnic division of workers and their payment systems served the interests of many who were more powerful: the owner who could tighten his grip on some of his workers' wealth; the manager who could anticipate absenteeism more effectively and thus plan better; and the husbands who could continue the conventional paternalistic ways of collecting wages on behalf of their wives and allocating resources within the family. However, given that the factory building was originally a residential house with smaller rooms, some sort of physical division among the workers had to take place; and given that the workers in Rongoli worked more on their own rather than in large groups as was the case in most other factories, a division based on ethnicity appeared the most logical one.

All workers received a wage of between 75 to 200 rupees for each piece of garment they tailored, depending on the time, level of skill and effort required. Most of the garments being made while I was there were in the 120-150 rupee range, and the workers averaged two to three of the easier garments or one to two of the more demanding garments per day, working ten hours with short breaks. The tailored garments would then be sent for inspection, where they would be individually checked, not only for measurements, but more importantly the fineness of stitches. Sabitri herself did the final round of quality

checking. Approximately a third of the output would be set aside for ‘alterations’ which was a very high rate for a garment factory. Sabitri would explain the defects personally to the *kaligadhs* before they were passed on to them for rework. These explanations would range from simple stitch faults to the re-stitching of the entire or major parts of the garment, and sometimes rejection of the piece altogether.<sup>88</sup>

Once the tailoring was approved, the garment was sent for ‘finishing,’ which would entail cutting and cleaning of thread, and any hand stitching and beadwork needed. This would also entail button attachment. In most garment factories, buttons would be attached by machines, but since Rongoli used bone and horn buttons which were manually made and thus irregular in size, these had to be done by hand. About 50-60 workers, roughly a quarter of them women, worked in the finishing department on the third floor of the factory. The women worked until 5:30pm and men until 9pm. They earned a salary of between twenty two hundred (minimum) to five thousand rupees per month and the reason they said they were happy with the work was that the factory had a homely environment and they were never asked to stay ‘after dark’ as in other factories. On the one occasion in eighteen years, when they were asked to stay until 11pm, Sabitri sent messages (either by telephone or through a messenger) to the families of every worker and she herself stayed on the floor until everybody left. This was an incident both female and male workers liked to talk about whenever a discussion took place about working conditions. They also took pride in the fact that their work was not ‘any (old) garment making’ but one that required a great deal of skill and patience, such that if others were to join in, they would not stay for more than a week. After this, the pieces would be sent for stain removal if needed, which they did by spraying white petrol and other chemicals on them. They were then ready for final inspection (again by Sabitri, with one assistant), before being packed and despatched.

### 3c. Buying fabrics

Fabrics of different weaves, colours and motifs were the most important input for Rongoli, and the more choices they had, the better. As I discussed earlier, the owners of Rongoli saw their work to be ‘playing with fabrics’. Minimising work on all other

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<sup>88</sup> I saw only one case of such rejection which was a garment stitched by a young *kaligadh*, who had just returned from vacation. Sabitri calmly explained the series of faults it had, by the end of which the *kaligadh* was so agonised that he just offered to pay for the piece. Sabitri did not cut his pay but ruled that from then on he should work very closely with his fellow *kaligadh* who had brought him there and get every *palla* (cut) checked by him before going on to attach a new one.

aspects of designs such as fitting and accessories, they chose to devote most of their energy to creating new designs using decorative arts.

The guidelines that Rongoli followed were those of the leading fashion forecasts from the US and Europe. The most frequently used materials in Rongoli were:

- Trend West (fashion magazine, USA)
- Textile View (fabrics and colours forecast magazine for three seasons, German)
- Trends Collezioni (fabrics, colours, prints and yarns forecast magazine, Italian)
- Textile Report (forecast magazine on fabrics, prints and styling, French)
- View on Colour (inspirational magazine)
- Donna Collezioni (high fashion magazine, Italian)
- Vision and PratoExpo Fabrics Preview

In December 2003, a list of fourteen textiles was prepared from these forecasts, which included, among others, Printed Burnt Velvet, Gold Chenille, Optical, Pink Gold, Velvety Prints and Late Seventies' Glamour. The reach of printed or written information ended here for Rongoli. All other tasks that followed drew entirely on their informal training, experience and networks. Neither the designers, nor Gaj himself, although all of them had received formal education and training, made any effort to draw information from the printed media, internet or even personal notes; most of their knowledge came from personal observation and interests and were communicated by word of mouth.

All of the fabrics listed in the forecasts were manufactured in Europe or the US, which were of course, beyond the reach of Rongoli. Gaj would then set out on a two week long trip to various cities in India, returning with samples of Indian textiles that were closest to the recommendations chosen from the Western catalogues and which cost him only a fraction of the European or American prices. Once orders for the new designs were received Gaj arranged for a larger quantity of the necessary fabrics to be shipped to Kathmandu. Almost 95 per cent of the fabrics for Rongoli came from India. Gaj had a love-hate relationship with India because most of his ideas, skills and inputs came from India, but then, so did his rivals.

When I asked Gaj his primary fear for the business, he said that it was the copying of his designs by others. He gave me examples, mentioning even a reputed brand such as

Nordstrom whom he often supplied, had been known to accept a similar design from an Indian designer which Gaj thought was a case of unauthorised copying. He also noted that four or five Indian companies were already competing with Rongoli for its niche market, namely Allure, Nimon Market, Flashback, Anaj and Sandy Starkman. He felt the latter which had started on a much smaller scale about four or five years previously and grown into a factory bigger than Rongoli, posed a real threat. Under these circumstances, understandably, he was unwilling to trust anybody in India more than he had to.

Although Gaj was worried that Indian enterprises might in future erode his business niche, there was no way he could do without an Indian connection. It was the informal handloom weaving sector of India, which supplied the majority of the fabrics for Rongoli. This was a sector so dominated by kin and locality-based trust that Gaj could not manage the task of fabrics acquisition from somewhere as far away as Kathmandu and he had to have a reliable contact point in India. This was solved in a way that would have serious implications for his family. In 1993, an Indian woman from New Delhi came to work as a designer for Rongoli. Gaj thought Smita Chopda a good designer, but did not think she would cope with the Kathmandu lifestyle. He said that people from Delhi are used to 'fast lifestyles'. After four or five months of working in Rongoli, Gaj sent Smita back to New Delhi to work as his Delhi-based merchandiser. Since then, she and her assistant Anuj have been carrying out the task of fabric acquisition. She facilitated all of Gaj's trips to India and travelled with him all over the country. Gaj ranked her very highly in terms of her knowledge of and interest in fabrics and her enthusiastic learning attitude, and she was trusted with large sums of money and serious responsibilities; in 2003/04, Smita was Rongoli's largest creditor. Since dealing with fabrics was always complicated, he spoke with her on the phone at least once a day.

This relationship with the merchandiser caused some tension in Gaj's family. His wife and daughter thought that he was spending far too much time with her and giving her more attention than was necessary. If anyone made any comment about Smita during any conversation, this would be responded with a long and uneasy silence from Sabitri and others. Most of Gaj's trips to India were viewed with suspicion; his wife never accompanied him in any of his trips to India during my fieldwork. Although the stated reason might have been that one person had to be in the factory to look after things while

Gaj was away, the New Delhi merchandiser was a figure treated with resentment and suspicion.

### Origin of Textiles from India: a summary

City	Types of textiles manufactured
Ahmadabad	Brocades: <i>amrus</i> (in pure silk), <i>kimkhabs</i> (means 'little dreams; mixture of cotton and silk), <i>asavali</i> (with richer and bigger patterns)
Amritsar/Ludhiana	Woollen fabrics and tweed
Banglore	Pure silk, <i>dupian</i>
Benaras	Brocade: <i>zari jamdani</i> (weaved through play on west; zari is metallic thread, gold or silver), cut-work <i>jamdani</i> , <i>tanchoi</i> ; Getwa silk; jacquard silk, <i>khewa</i>
Bombay	Leather, cotton
Chennai	Leather
Delhi	Wide variety of textiles, the best 'last resort'
Jaipur	Leather. Tie-dye fabrics: <i>bandhani</i> (geometric), <i>leheria</i> (wave-like)
Karnataka	Speciality cotton and silk mix, from small villages, e.g., <i>ilkal</i> fabric, <i>narayanpeeth</i> fabric, <i>khana</i> , etc.
Kutch	Thread and materials for mirrorwork, <i>zalakdozi</i> embroidery (with a hook) and <i>mochi</i> artwork (using more distinct animal figures)
Lucknow	Threads and accessories for <i>chikkenkeri</i> embroidery
Others (Merath, Panipat, Pilkhuwa, Surat)	Various
Nepal	Some types of cotton, silk and linen

This table is derived from a summary of various informal discussions between Gaj and myself after his last return from his four trips to India (January, April, July 2003 and March 2004) during the course of my fieldwork. The list is not complete in any way, nor is it authentic even epistemologically. At various times, Gaj purchased what I thought to be the same textiles from different places. For example, he bought 'no. 12 yarn, mono-colour, and casement tweed' from Amritsar on his first trip, but on his second trip, he got the 'same' tweed from Delhi. When I asked him why he did not go back to his original supplier in Amritsar, he was astonished that after so many months of close observation, I was still not able to differentiate between what was, in fact, two completely different types of tweed. He explained that the new tweed was *chasmebulbul* or *barfi*-patterned,

which pattern he said originated from the Indian *mithai* (sweet dish) called *barfi* which was crystalline in shape. The pattern would become apparent only after the fabric was washed and had slightly shrunk. This indeed was so.

I tried to compare my field notes with innumerable discussions I had with him and others in the factory about Indian fabrics, and was completely stumped. There was no straightforward formula as to what was best where. As often seems to be the case in the real world, one found what one was looking for, and what one looked for depended on who one was. What was quite distinct about the Indian textile market that Rongoli was drawing from, was that, as in all imperfect markets, there was no one official source of information. Although there were government units on textile promotion and information catering, I never saw Gaj or his designers consulting any books on textile acquisition. The use of formal information sources ceased as soon as the fashion magazines had been flipped through and a list of fashionable European and American textiles had been drawn up.

Rongoli's world was one that had cloths and clothes everywhere. When one entered the factory building, even before reaching the main office, one encountered piles of fabrics the height of a man in the corridor. Gaj's office would have piles of various fabrics all around the table, and smaller pieces lying on his working table. No lunch went by without having at least one discussion about Indian regional food, and linked to it, the regional textile and clothing.<sup>89</sup> As I sat in his office endlessly during his working hours, I noticed that almost all the phone calls he received, and many of his conversations with his wife, were about either fabrics or embroideries. Buttons, threads and other household issues, were rarely discussed, nor was the machinery, which were the oldest and cheapest I saw in any of the garment factories. While all other factories, including the 'fabricators' who were the lowest in the garment hierarchy had long switched to Japanese sewing machines, Rongoli was still working on manually-powered Indian machines that cost less than 10 per cent of the Japanese ones.

Everyone agreed that textile buying required the full-time attention of one person and without that it would be impossible to deal the *jhyau* (literally, 'lousy', but meaning

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<sup>89</sup> Normally, Gaj and Sabitri would have lunch with their designers while the regular staff were given lunch in their own offices. The workers either brought their own lunch or went out to nearby teashops.

complicated) work, and that without personal follow up, the informal weaving sector of India just would not meet the demands of an international business like Rongoli where punctuality of delivery and quality of products and services were key to its success. When I asked if it would be better if Rongoli dealt more with the formal textile sector which was growing fast in India, I was told that this would be like *afnai khuttama bancharo hanu* (cutting your own feet with an axe) for a number of reasons described below.

In addition to the difference in work ethics between the informal and the formal sector, prices varied enormously too. For example, the ‘village-price’ of 60-inch width plain cotton in the village of Aravalli (in Udaipur) would be about 17 rupees (or 10.5 Indian rupees) per metre. The same cotton would cost a minimum of 27 rupees in the new markets of Udaipur and New Delhi. These were small differences in cost per metre, but would become much more significant when scaled up to accommodate the quantities of cloth the factory required. He gave me another example. In Benares, which accommodates a large brocade industry, one would have three choices: first and most expensive, one could buy from the *grihasthis* (who own or manage 50-100 looms) or *kothidars* (who owned more and also handled their own marketing). Second, approach a *gaddi* (established commission agent) in the local *sutti* (market), who would connect the buyer with the weaver for a small charge and one could buy the textile directly in a negotiated price. The drawback to this was that it was highly unlikely that individual weavers would have to supply sufficient supply of cloth in hand for the whole order. The third and most cost-effective way to acquire fabrics would be to place an order with the weaver through the *gaddi*. For this, one would supply the raw materials to the weaver and the balance owing would be paid on delivery. This would bring the prices down by about 40 per cent. Other states and cities had their own practices.

In Karnataka, for example, the weaving industry operated under a more horizontal economic system, again with three options. There were weavers or village-level co-operatives of weavers who could afford their own raw materials and they were in a position to bargain strongly, and were called *rokdas*. The second system, *satta*, involved the buyer paying in advance for the raw materials and then waited for the finished product to be delivered. The final option was *mungada* whereby the *sahu* (buyer) provided the weaver with raw materials and paid him/her in kind, e.g., enough raw materials for one metre of fabric once the weaver had produced ten metres. A complete

outsider would have no choice but to buy from the *rokda* system, whereas someone with local connections would be able to use options two and three which would make the cloth much cheaper.

#### 4. Resilience beyond the MFA

Contrary to the general myth of the linearity of industrial development, where production was thought to gain efficiency with deployment of mechanisation and anonymisation of the process, Rongoli seemed to thrive on old business practices, e.g., caste-based compartmentalisation of workers, personalisation of business alliances, etc. The global volatility generated by the MFA and the local crisis engendered by the Maoist labour unionism brought new challenges not only for Rongoli but all garment factories in Nepal. Notably these new developments did not weaken the business spirit in Rongoli, but if anything, were seized upon as opportunities for Rongoli to tap into new possibilities and to expand its reach.

As I have described earlier, Rongoli never had labour problems. Even when all other factories had closed down under the spell of the ethnicist Maoist labour unionism, Rongoli resumed its operations even if this required Gaj to padlock the main gate and use the back entrance to give the impression to outsiders that it was closed. So loyal were the workers to their owners in Rongoli that no one objected the secretive operations. However, this stopped eventually as the Maoist labour unionists sharpened their focus on the factory, but even then they could not infiltrate the Rongoli labour force as they did in most other factories. As a result, there were no demands for unreasonable wage increase. ‘Donations’ were asked for and paid at times, but not as exorbitant as the mass manufacturers. In fact, when pressure was exerted on Rongoli to register a formal labour union, Gaj registered one with the more liberal NTUC, listing himself as the head of the labour union. For this, he needed to be endorsed by 25 per cent of his workers, which he easily got done. However bizarre was such a listing and however much the labour unionists tried to prevent it, it went ahead as Gaj had wanted. Over time, the local Maoist cadre acknowledged during his conversation with Gaj that Rongoli was a separate case altogether and that, although a Marwari, this particular family of Rauniyars were actually ‘Nepali’.

As far as the MFA-expiration was concerned, it was a reward in disguise for Rongoli because all the MFA did was that it moved the rival factories from its path leaving it

larger shares of resources. Rongoli operated in a building that had been originally built for residential purposes and was located in a residential area. Not only was it under pressure from State officials and neighbours to move to a more appropriate area but it was in its own interests to gain more physical space. Although there was no immediate pressure from its buyers to upgrade its machinery, Rongoli was well aware that better machines would make the job easier for everybody involved. The expiration of the MFA offered Rongoli the opportunity to upgrade their machines at a very competitive price as the mass manufacturing factories which had closed down desperately tried to sell off their equipment to raise some cash. The Rauniyars individually received competing offers from their business acquaintances, including Arya-Nepal3, asking them to buy their machinery at a rock-bottom price.

Rongoli turned down all offers for the sale or lease of their factory buildings. The Rauniyars were of the opinion that the factory had to be within walking distance of home for the factory floors to operate smoothly. Accordingly, they bought a flat not very far from their current location – just outside the ring road but still within walking distance from their residence. Finally, a factory-like open floor plan was designed and a building was constructed. The workers were still caste-segregated in this new building although now they only had a thin partition to separate the Nepalis from the Madhesis. As in the old factory, the owners still had their offices at the first floor main entrance, from where they could control the comings and goings of the artisans and store-keepers. The only difference was that Gaj and Sabitri now had separate offices as CEO and production manager, and the fashion designers worked in the room adjacent to Gaj and Sabitri instead of being one floor apart as was the case in the old factory. The store room was much bigger. The buyers – who had by then divorced and worked as business partners – had their own offices to work from when they visited Kathmandu. Rongoli eventually cut a deal with one of the mass manufacturers to buy their new Japanese machines at a bargain price. Its production was obviously expanding and the market was flourishing despite the expiration of the MFA.

## Chapter 6: Swakan-Chhemu

My third case study is Swakan-Chhemu Pvt Ltd, a business collaboration of Buddhist Newars from the Kathmandu Valley with pro-Tibet entrepreneurs from the United Kingdom. This venture relives a long history of pseudo-kinship shared between Tibetans which is being recontextualised to global integration as facilitated by technology on the one hand and demographic dispersion on the other. The two social groups involved in this business had mutually acculturated each other throughout the various phases of their longstanding exchange of commodities and philosophies. In fact, the Buddhist Newars' cultural ascendancy over other caste and ethnic groups within Nepal drew largely on the reality and myths surrounding the medieval trade with Tibet that they had monopolised. Although the sealing of the Nepal-Tibet border in 1959 blurred the original sense of affinity that the Buddhist Newars from the Kathmandu Valley once shared with the Tibetans, they continued to benchmark their identities against the latter.

This chapter is an account of how the Buddhist Newars reconstituted themselves over the centuries, paradoxically, both as an economically thriving political minority within Nepal, as well as the bearers of a grand Buddhist cultural history outside Nepal. It explores the outcomes of the culture-economics interplay among the Buddhist Newars throughout the successive waves of economic and cultural globalisation that have lately engulfed them. Buffeted by a series of cultural and political dispositions, the Buddhist Newars did not accumulate a linear and mechanical expansion throughout the economic modernisation process, as a pure economic discourse would have speculated, but instead embraced a complex mix of identity, politics and economic pragmatism, which has helped them survive the fierce market competition of the twenty-first century.

### 1. Situating the Shaka family: Buddhist artisanship and tradesmanship

The Newars are an eclectic ethnic group who had posed a classificatory problem not only for the compilers of the caste-based *muluki ain* (penal code) in the nineteenth century,<sup>90</sup> but also for anthropologists studying them thereafter. Indigenously from the Kathmandu Valley, or 'Nepal' as it was then popularly referred to, the Newars took a phlegmatic approach to their defeat at the hands of the Parbatiya king Prithvi Narayan Shah in 1769.

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<sup>90</sup> The Newar society has traditionally organised itself under a full-fledged caste system as complex as the one described in *muluki ain*. Nevertheless, the *muluki ain* ignored the inherent diversity and hierarchy among the Newars (e.g., there are Hindu and Buddhist Newars, Newar priests and Newar untouchables) and designated them all as one homogenous 'merchant' or *vaishya* group.

Essentially, all of the Newar State festivities, which once revolved around the felicitation of the Newar kings, conveniently accepted blessings from the Shah dynasty monarchs after their successful unification of the nation. For example, the living goddess Kumari, believed to be the protector deity of the Newar Malla dynasty, had no problem blessing the Shah kings who were the slayers of her original patrons. In fact, the worship of Indra (the King of Heavens) was the major ritual act Chhetri King Prithvi Narayan Shah famously performed on behalf of the defeated Newar King Jaya Prakash Malla on the very day he successfully invaded Kathmandu Valley in 1769. Thereafter, as the Parbatiya language and culture were increasingly being labeled as the *de facto* Nepali *sajha sanskriti* (language and culture) Newars lately came to pursue a bifurcated identity: whilst they distanced themselves linguistically and ethnically from the ruling ‘Nepali’ or Parbatiya ethnicity they also strove to make themselves part of an inclusive Janajati identity along with other non-ruling hill ethnicities who also felt disenfranchised by the ruling Parbatiyas (Gellner: 1992: 13-15).

Trade traditionally played a vital role in the Newar economy, because the Valley lay along an ancient trade route between India and Tibet, and more recently because Kathmandu, as the capital city and center of development aid, continued to spawn new markets for imported goods. Trade was primarily responsible for drawing Newars out of the Kathmandu Valley to establish settlements elsewhere (Gellner and Quigley, 1999: 300). It also echoed the religious order of the Newar caste hierarchy which was said to be ‘double-headed’ where Hindu (Brahmu – Newar for Bahun) and Buddhist (Bajracharya) priests made competing claims for superiority within the Newar caste hierarchy. While Hindu Newars were generally perceived to be the subgroup that had adapted best to the Hindu ruling elite culture, Buddhist Newars have historically been closer to their Tibetan counterparts across the Himalayas where Buddhism held a strong influence. Given that it was the exchange of Buddhist philosophy that had initiated the mercantile Nepal-Tibet trade in the first place, the Tibet trade largely remained the prerogative not of all Newars but only Buddhist Newars. Rankin’s (2004: 90) research of Newar trading history pointed out that most of the Newar traders operating in Lhasa or Tibet until the Chinese takeover in 1950 were either Shakyas who were members of the lay Buddhist caste, or Urays who were the offspring of unions between Shakyas and Tibetans.<sup>91</sup>

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<sup>91</sup> Lewis (1999: 48 in Gellner and Quigley, 1999) argues that the children of Shakyas and Vajracharyas with lower castes within the Kathmandu Valley or in other parts of Nepal and India might also have been called Urays although these were not traders.

In addition to the geographic advantage that the lowest two of the dozen passes into Tibet went via Kathmandu Valley, the legendary marriage of the Nepali princess Bhrikuti with the Tibetan emperor Srong Btsan Sgam Po in 633 had laid the initial foundations for political and economic ties between the two countries (Shakya, 1997: 39). Princess Bhrikuti was credited with introducing Buddhism to the previously animist Tibetans and constructing the first cohort of Buddhist architectural edifices in and around Lhasa. Such projects were accomplished with the help of the Buddhist Newar architects she had taken to Tibet as part of her royal entourage, who later facilitated the exchange of cultural capital between the two countries (Shakya, 1997: 77). Such cultural and economic exchanges were at times punctuated and other times expedited by frequent wars between the two countries until the 1650 treaty finally consolidated it in Nepal's favour (see Section 1 of Chapter 2). In the following centuries, Nepali society and economy modernised, and the Shakyas pursued a wide range of professions within and outside their conventional ambits of Buddhism and trade. Nonetheless, they largely continued to pursue bifurcated occupational excellence, that effortlessly combined devotional artisanship with commercial trade (Gellner and Quigley, 1999: 213). My third case study, Swakan-Chhemu, offers a good example of a modern enterprise that stems from the glory and decline of Buddhist Newar cultural history from medieval times.

As a factory that grew and sophisticated gradually against all odds, Swakan-Chhemu gives us an insight into what it meant to be a Newar entrepreneur. Heera Ratna Shakya, the head of the Buddhist Newar household that owned Swakan-Chhemu, started his career in the 1960s as a freelance translator who worked for Kathmandu-based foreign diplomatic missions. As Nepal opened up to the world in the 1970s, he gave up his translation career to start a curio shop in one of the four-star hotels in Kathmandu. By the time Nepal formulated its first comprehensive industrial policy and plan in 1981, Heera Ratna was already conversant with policy developments and their impacts on industries and firms, and he subsequently began to export curios to regular customers.

Commendably, Swakan-Chhemu's active engagement with the State went well beyond an economist's ahistorical emphasis on good outcomes being simply the result of a pursuit of cost economics and emphasis on procedural efficiencies. If anything, Swakan-Chhemu was conceived through the entrepreneur's engagement with the State on matters that had less to do with economics and more with politics. In addition to being a successful entrepreneur, Heera Ratna had also developed personal and political ties with

the Bahun-Chhetri elites ruling Nepal at that time: For example, he was among the few Newar activists who had fought for democracy in the popular movement that ousted the Rana regime. His role in maintaining security and public order during the transition that marked the handover of power from the Ranas to the alliance of Nepali Congress and King Tribhuvan was especially noted. He was instrumental in a successful launch of a local defense initiative called *rakshya mandal* (defence circle), which mobilised the locals at the grassroots level to maintain public security and order and kept disintegration at bay, allowing enough time for the new State order to gradually emerge. Such a socio-political leadership strengthened his influence not only among the Newars of Lalitpur, but also among the ruling elites in broader Kathmandu. He subsequently was elected as head of the municipal council in the first local elections under the new democratic regime. Through his commitment to neo-political and social reforms, Heera Ratna gained access to the State bureaucracy which would later help him set up and expand his export business.

A second spate of events saw Heera Ratna's success as, above all, a confirmation that cultural capital stood superior to strictly cost-based industrial thinking or narrow political maneuvering. Heera Ratna, like his compatriots of the same cohort, was deeply influenced by Gandhian philosophy. Following the popularity of the Swadeshi movement in India, Heera Ratna worked to establish a co-operative that mobilised the local women from Bhaktapur within the Kathmandu Valley into weaving cotton for consumption by the local population.<sup>92</sup> Throughout his tenure in the municipal council, he was also instrumental in organising a series of art exhibitions within the country and abroad. He showcased the Buddhist Newar art of statuary and thangka-painting in diplomatic, cultural and commercial events in Asia, Europe and the United States. He was a founder member of the Handicraft Association of Nepal, which emerged later not only as an institutional curator of the Buddhist Newar culture that offered historical legitimacy for Nepal's handicraft business, but also as a strong lobbying group that protected the interests of art and handicraft manufacturers nationwide.

By the time his public career ended in 1958, Heera Ratna had successfully consolidated his political, economic and cultural networks. Following the Chinese invasion of Tibet, as Kathmandu came to be seen among Westerners as the nearest possible station from where to keep a close eye on Tibet, Heera Ratna's cultural circle quickly absorbed

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<sup>92</sup> Bhaktapur Hand-Weaving Co-operative.

several Western scholars, diplomats and activists. Among them was Henerich Harrer, an Austrian mountaineer and celebrity author of the acclaimed travelogue ‘Seven Years in Tibet’ depicting his intimate relationship with the Dalai Lama as his Western mentor, who also used Kathmandu as his base as the Chinese strengthened their control over Tibet isolating it from the world. Harrer introduced Heera Ratna to a group of pro-Tibet European entrepreneurs interested in developing business in Nepal. Over time, Heera Ratna forged a formal agreement with one of the entrepreneurs, John Paso – an English Jew Buddhist, and this eventually became the foundation of the modern and competitive business that Swakan-Chhemu became.

## **2. Property ownership in a joint family: the old, the young and the female**

With a relatively large family, Heera Ratna was understandably a respected role model for his three sons and two daughters: he almost handheld his sons in choosing and establishing their business ventures throughout the 1970s. Tej, the eldest, set up a Tibetan carpet factory in partnership with an ethnic Tibetan, following an initiative led by the Swiss Development Corporation (SDC) to develop an international market for branded Tibetan carpets. The Swiss government envisaged a Kathmandu-based Tibetan carpet weaving industry would offer employment opportunities to Tibetan refugees fleeing the Chinese persecution. Mani, Heera Ratna’s second son, set up a business venture to produce quilted garments. As the tourism sector developed in Nepal, it had come to offer a promising retail market as visiting tourists wanted to buy handmade garments to take home as souvenirs. Mani was four years younger than Tej, and his project was substantially modest in both scale and content. The youngest, Rahul was still studying.

The Shakyas shared their ancestral house in a well-off Buddhist Newar locality until Heera Ratna died. All three sons and their wives and children, along with the two unmarried daughters, shared the family hearth and strongbox: his wife controlled and managed the hearth and kitchen storage while the keys to the strongbox lay in Heera Ratna’s wise hands. They relied on their personal *bibek* (wisdom) in deciding the course of action for the family. It was the mother who searched for brides for the sons; and the father who identified business opportunities and oversaw their first forays into business development. Once they were perceived to be able to stand on their own two feet, Heera Ratna spent the last few years of his life developing a mini estate where each of the sons could have their individual houses while sharing the compound and some of the common

facilities with the rest of the extended family. He died in 1975. All of the family members I interviewed had fond memories of Heera Ratna as a remarkable man they were indebted to. Not only did the three brothers enthusiastically co-operate in commissioning and publishing Heera Ratna's biography, but each kept and proudly displayed his personal memorabilia in their respective houses, the most prominent of them being a collection of some of the carpentry work Heera Ratna had undertaken while he was building his career as a local leader advocating *swadeshi*-ness (patriotism in consumption) and democracy. All of his offspring fondly recalled without hinting at the slightest sense of complaint that one of his granddaughters always got special treatment over others; nor did the sons have any squabbles over the inherent differences in monetary profits derived from Tej's carpet-weaving and Mani's garment-making. The patriarch was obviously very well respected and his decisions and personal discretions were accepted by all the younger members of the family without serious questioning.

The Shakyas of Swakan-Chhemu placed the family unit above individual likes and dislikes. The importance of *daju-kija-mhyayamasta-bhinamasta* (the relationship between brothers, sisters and their children) was continuously emphasised as the way to safeguarding *dhuku-piku* (the family strongbox and secrets). Tej's carpet factory was initially a profitable business benefiting from the Swiss-led marketing campaign among its European elite clients. He and his Tibetan business partner employed over fifty workers and they were seen to be part of the new educated entrepreneurial elite who could not only set exemplary entrepreneurial benchmarks for society, but also had the potential to rise above individual entrepreneurial interests to advise governments internationally on industrial policymaking. In 1986, Tej received an offer from the World Bank to serve as Nepal's trade specialist in its Washington DC office. Owing to the attractive financial prospects inherent in the offer, it was only sensible that he accepted it even though it meant handing over his business to his younger brother Mani. The formal business ownership registration, however, needed no amendment as it had been registered under their mother's name in the first place. This was done purely to facilitate bureaucratic transactions rather than as a formal indication of property ownership. Rahul, the youngest of the Shakya brothers, followed Tej to train at the prestigious Fashion Institute of Technology (FIT) in New York. Although Mani had taken over the carpet business from Tej, he continued to nurture the small-scale garment business that he had started earlier. The carpet bust of 1992 saw Nepal's carpet exports plummet by over 36 per cent, owing to a loss of credibility regarding quality and the

genuineness of raw materials. Mani shut down the carpet factory and focused exclusively on his garment business, whose prospects appeared to have improved substantially with the sustained growth in tourism.

In the 1980s, Mani employed no more than five tailors and exclusively relied on locally made textiles and accessories for his production. Nepal was still under a protectionist trade regime, and there were stringent policies and procedures in place which discouraged imports, even if they contributed directly to the production of exportables. The political and economic changes of the early 1990s removed import barriers and prepared the economy for global integration. This had profound implications on the way Swakan-Chhemu did business. First, it was no longer confined to using local materials for its production; it could instead use imports such as organic and hemp fabrics which were more attractive to the tourists looking for souvenir garments. Second, it was no longer confined to its tourist clientele; with non-tariff barriers on exports<sup>93</sup> significantly reduced, Swakan-Chhemu could compete directly in the international wholesale garments market.

Given the inherent uncertainty in the overall industrial climate that required frequent transitions from one business to another, families remained the key source of support for Swakan-Chhemu in terms of much needed skills and networks. More importantly, the essential family capital was kept undivided and fungible in case any need arose abruptly for unforeseen investments. There was a strong sense of family among the legal heirs of the family property which acted to keep the family unit financially intact and the family boundaries safely guarded. Tej, Mani and Rahul all acknowledged that they had resisted the temptation to individualise the family property by registering it under one or other of the female family members' names rather than their own. Tej's carpet factory, when it was running, was registered under their mother's name while Mani's garment factory was registered under one of the unmarried sisters. After the mother passed away and the sister given away in marriage, the property ownerships were transferred to the wives of two older brothers. Youngest brother Rahul was not married at that time, but even when he later was, none of the family members thought it a serious matter whether or not his wife had any property formally registered in her name. In any case, the two older women who did have property formally registered under their names did not exert any

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<sup>93</sup> Non-tariff barriers usually include assignment of fixed quotas, infrastructural bottlenecks as well as the red tape on licensing, customs clearance, standards certification, etc.

control whatsoever over them, nor did they personally keep any of the official property documents outside the family strongbox. In fact, the wives would not even know how big was their business since they hardly ever came to the factory to see the operations. In contrast, there were very clear boundaries as to who qualified as part of the family and who did not. All three brothers were unanimous that when one of the sisters got married, all properties under her name must be immediately transferred back within the family. It was thought to be ‘dangerous’ to involve a brother-in-law in family matters because only the family shared the *la*, *hi* and *ista* (flesh, blood and business network) that formed the real boundary between *thaha* and *kataha* (one’s own and the others). The male in-laws who resided outside family territories and pursued their independent social and business trajectories could not be part of it.

In addition to financial capital, the social networks on which their business relied so heavily were also perceived to be of equal entitlement to all male members of the family above a certain age. I have already discussed Heera Ratna’s networking with Tibet advocates throughout and after his tenure at the municipal council. All three of his sons had been gradually introduced to this social circle as they came of age. Whereas daughters were carefully trained to concern themselves with activities directly tied to family needs,<sup>94</sup> the sons were encouraged to join Heera Ratna in interactions with foreign dignitaries, celebrities and scholars. As the Nepali economy entered liberalisation in the early 1990s, as I discussed earlier, Swakan-Chhemu actively revamped its business network structure. Although Mani was managing the day-to-day business in Swakan-Chhemu, it was Tej who brokered a deal for Swakan-Chhemu with one of their former clients of Buddhist Newar handicrafts. The significance of the deal lay in the details of the financial arrangements between the buyer and the producer: Swakan-Chhemu’s buyer, John Paso, agreed not only to finance Swakan-Chhemu in designing and manufacturing Tibetan-contemporary garments, but also to act as the sole promoter, buyer and distributor of Swakan-Chhemu garments among the pro-Tibet wing of the European Fair Trade market.

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<sup>94</sup> Women were not only excluded from networking outside the kin circle, despite legally owning the properties, they were not consulted on major or minor business matters. Unlike Sabitri in Rongli who was an equal business partner and adviser to Gaj even before they formally registered the business, the wives of Tej, Mani and Rahul hardly ever set foot in the factory. Their knowledge of the business did not go beyond gossip and rumours they might have heard from their spouses.

Entering into the new agreement with Swakan-Chhemu required a serious commitment and hence a structural change in the buyer's business strategy. John Paso's earlier business venture in Nepal had been that of curio dealership, which he had abandoned for a few years to pursue a more glamorous world of fashion designing in Bali. The time might have seemed appropriate for John to reengage in Nepal after earning credentials as a producer of fashionable garments. The result was the formation of a new business in Nepal in which John employed Tenzing, his (then) fiancée's brother and a Tibetan refugee living in London. The timing could not have been more right for Swakan-Chhemu, as Rahul, the youngest of the Shakya brothers, had just returned from the Fashion Institute of Technology (FIT) in New York with his prestigious diploma.

### **3. Designing for Swakan-Chhemu: more than just garments**

Drawing on the semiotics of the grand history of Nepal-Tibet trade led by the Buddhist Newars of Kathmandu Valley, Swakan-Chhemu's ethno-contemporary garments were designed to access the vast global market that the modern Tibetan diaspora has been able to tap into. The financing, production and marketing process applied in Swakan-Chhemu were all direct outcomes of two paradoxical developments. At one level, the Tibetan diaspora made headway globally for their strong cultural capital associated with Tibet; and in this process of expansion did they come to rediscover the old cultural ties they once had with the Shakyas throughout the heydays of medieval Nepal-Tibet trade. Although Tibet trade was still an undeniable signpost to a Newar Buddhist identity, this trade route had been sealed off for several decades and the new generation of Buddhist Newars no longer felt the same original sense of affinity that their forefathers had with the Tibetans. In contrast, for more or less the same number of decades, the political upheavals in Tibet had come to contribute to its promotion in Western societies as a brand of pristine civilisation and spirituality. From a cultural economic perspective which stressed the process of 'valorisation,'<sup>95</sup> Swakan-Chhemu's products were subject to re-evaluation in a discursive market wherein values of symbolic goods evolved. Such an evolution had several consequences, in general for the cultural standing of the ethnic and national groups involved, and in particular for the business alliances and methodologies that developed within Swakan-Chhemu. I will demonstrate in this section that the valorisation process gave rise to a number of creative avenues for product

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<sup>95</sup> Meaning the discursive process of alteration in the value of cultural goods as per the attention paid to it (Klamer, 2004: 143).

designing that led to business growth, and helped form unlikely alliances among the communities which were otherwise disconnectedly scattered all around the globe.

Swakan-Chhemu catered to the Fair Trade market, for which it had to use either certified hemp fabrics or certified hand-woven fabrics. In fact, graduating from the local tourist market in search of the global niche market largely required that Swakan-Chhemu minimise the use of locally-made hand-woven fabrics and maximise higher quality hemp fabrics. Though established as a realisation of Heera Ratna's Gandhian vision of *swadeshi*-ness, Swakan-Chhemu did not hesitate in switching to use imported hemp fabrics. Equally, although developed to attract investors and consumers committed to promote Tibet's cause, Swakan-Chhemu forged a partnership with a Shanghai-based Chinese firm in order to secure a regular supply of hemp fabrics. On these building blocks which were part coherent, part paradox, stood the symbolism that Swakan-Chhemu designed, produced and exported.

The fashion designer who designed all of Swakan-Chhemu's garments was a young French woman who worked for John Paso, Swakan-Chhemu's financier and buyer. Kelly would saturate herself with ideas by attending as many fashion shows as possible in the European fashion capital cities. This could take a week, or go on for months. This was all to make up her mind on a theme, which would mark all her designs for the season. Once she was 'saturated,' she would go on a shopping spree – buying sample fabrics from the established brands of Diesel, Fanlarina, M60 and Bench Hooch to almost anybody in the Portobello and Camden Market street stalls in London. These were just for inspiration. When the inspiration was 'ripe', she and her associate would lock themselves in a room to sketch. The final outputs of all this activity were a few suitcases full of fabrics and folders full of sketches which they brought to Kathmandu with them. When they boarded their return plane from Kathmandu, their luggage would remain more or less the same because the original fabric samples had been transformed into key sample pieces. The full range of samples was then couriered afterwards.

It appeared that Kelly's relationship with Kathmandu had little resemblance to that of other foreigners. She had outgrown Kathmandu's novelty effect that kept tourists captivated in their first few weeks, and her existence in Kathmandu was inherently isolated from the buzzing crowd of developmentalists, anthropologists or hippies looking to find a long term niche. For Kelly, Kathmandu was a difficult muse, 'frisky' one day

and ‘curmudgeonly’ the next. This was something that was also reflected in the way she connected and interacted with the owners and workers of Swakan-Chhemu. Contrary to general expectations for foreigners to be benevolent and guardian-like, though at the cost of being patronising Kelly was *ekalkante* (lonely), *ghusghuse* (quiet and introvert) but *dhakwa-sikwa-mamha* (demanding) figure for Puja, the designing assistant, Panday, the graphics designer and Rahul, the owner. Kelly made no attempts to socialise with her work colleagues apart from accepting occasional lunch invitations if they came from the owners and were scheduled for the working week. Instead, she would wander around the alleys and courtyards of inner Kathmandu and Boudha on her own looking for inspiration. One occasion when Kelly burst into tears about a minor error in embroidery confirmed Puja and Panday’s suspicion that Kelly was not like *mepin bideshita* (other foreigners) who were easy to get along with and made friends with everybody.

Yet, Kelly had to keep her artistic senses alive in order to continue to try to find ways of translating Kathmandu into something creative and interesting in her designs. Despite the logistical challenges, Kelly actually maintained that Kathmandu, with its complex melding of Hindu and Buddhist icons and eclectic mix of modern and ancient practices, was so inspirational that it remained a firm preference over moving their production to Dharmashala or elsewhere in India. She worked very closely with Rahul to add that final element of acculturation that gave her designs the edge. Although Rahul was hardly part of her hunt for inspiration as she wandered almost aimlessly around Kathmandu in search of the right image and icon, he almost always had the final say in deciding whether or not a certain Buddhist icon was appropriate for the style and colour of the design it was being added to. Kelly had more flexibility when the icons were not religious, and whenever a disagreement arose between them on the use of certain icons, Kelly often opted to use a non-religious icon. For Kelly, the harmony of fabrics, design and colour were as important a part of the design as the spiritual symbolism it conveyed; for Rahul, the final act of adding the symbols were as special as the *mikha kankyagu* (eye-opening) ritual of religious statue-making. The reality of contemporary fashion designing in Swakan-Chhemu, however, lay somewhere between the two worlds of spirituality and consumerism and its sustainability depended on extensive borrowing of ideas and practices from both worlds.

#### 4. Turning samples into production: a spatial expression of the order

The Newar communities have always exhibited a pronounced territorial introversion – settlements are protected from the dangerous surroundings by a ring of protector deities and icons (Gellner and Quigley, 1999: 300; Macdonald and Stahl, 1979: 115-118; Slusser 1982: 130-4; Shepard, 1985; and Gutschow *et al*, 1987: 134-8). Within the internal territories – not only the communal spaces like *bahas* and *bahis* where Newars perform their ancestral, social and religious rituals but also in private spaces such as residential houses, Newars demonstrate an organisation of space that is a symbolic expression of household and social organisation. Newar city houses are traditionally three and half storeys high, each level being dedicated to distinct household and ritual chores thus echoing the symmetry of the rising order of assigned ritual purity. Access to the different storeys varies for different community members, depending on their ritual and pragmatic importance within the caste order; higher storeys are assigned as venues for more important household chores where only members of the higher castes are permitted entry (Gellner, 1992: 28; Parish, 1996: 73). I will demonstrate in this section that the cognition of spatial organisation not only facilitates household chores among Newars but also lends itself to commercial production processes, where employees and tasks are equated with the order of caste-based hierarchies and alliances that dominate Newar social organisation. The contests and compromises that modern manufacturing imposed on the owners and employees of Swakan-Chhemu set the stage for the caste's transition from primordial to modern.

##### 4a. The top floor: owners, their kin and the trusted

A Newar house is typically four-storeyed and half. The *baigah* (top half floor) and *bhutu* (third floor that is a full floor) traditionally has two uses: the first is the prayer room whereas the second is the hearth and dining area. Both these functions are secretive rituals among the Newars for which utmost privacy and segregation had to be maintained from the outside world. If the house is very old, the upper part might also have extensions to the prayer room which have little light and air and are used as storage spaces. If the house is new, the dark storage space may have been turned into an open terrace or the *kasi*. The *chwata* (second floor) is where women and children spend most of their days doing family chores and is used for larger kin rituals marking major festivals as well as birth and death rituals. The *matan* (first floor) is used for formal meetings with business acquaintances. All of these floors are open only to the family, kin or caste members of equal or higher status. The lower-caste invitees to social rituals,

e.g., barbers and farmers who assist in the preparation of the rituals, have food brought down to the lower floors. If the house is located in the main street, the *chheli* (ground floor) is either run as a family-operated shop or rented out for such. If the house is located in the *galli* (inner alleys) and *chuka* (courtyards), the ground floor is often dark and inadequately ventilated, and will only have a lavatory and storage room. If the house belongs to artisans, the ground floor will be better maintained for use as a *jyasa* (workshop).

Although Swakan-Chhemu was much larger than residential buildings and although it was three-storeyed and half as opposed to four and half, there were several aspects of the traditional Newar spatial organisation which could be seen to have influenced the way the workspace was lay out in Swakan-Chhemu. For example, the second floor (or the full floor that is on the top) was where most of the important decisions were made and tasks undertaken. One had to take off one's shoes to enter the main complex of this floor which housed all of the important offices: Mani's office where key decisions were made on logistics; Rahul's which tackled production management and fashion design; a large and spacious sampling room that Kelly and John jointly used during their stays in Kathmandu; design extension accommodating Puja and Panday and finally, the accounting offices. There was an 'outer' extension on this floor that could be accessed by walking through an outside balcony that did not require entering the main floor, and hence did not require taking off shoes. This housed a large and barren room for the 'finishing' department that resembled the *chwata* of conventional Newar residential homes. The task of finishing included time-consuming and feminine tasks such as cutting off loose threads, measurement and quality checks, steaming and ironing, etc. All of the workers in this unit were Newar and Parbatiya women from within or around the Kathmandu Valley. Since it was perceived to be socially inappropriate that Nepali women work alongside the loud and rough Madheshi migrant workers, Swakan-Chhemu decided to house the finishing department next to where the owners worked even though this broke the assembly line. A Newar man from the untouchable caste whose family had served the Swakan-Chhemu owners for several generations was head of this unit.

This floor summed up most of the activities that conventionally went on in the *bhutu*, *chwata* and *matan* of traditional Newar residential homes – the family activities of cooking and feeding, women's chores of knitting and cleaning and men's business meetings and leisure activities. Although all located on the same floor, there was a clear

ritual separation between the owners' business space where the Shakya kin occupying various important jobs like managing, designing, accounting and financial monitoring sat (or the traditional equivalent of the *matan*) and the workers' casual space where the women of lower castes sat down to carry out the finishing tasks. One required taking off one's shoes while the other did not, and people hardly crossed each other's thresholds unless it was strictly necessary.

There was one exception however when it came to the use of the half floor nestled on top of the owners' floor. This part historically had little light and ventilation, and had acted as the traditional storage space as well as a secretive prayer room as per the conventional Newar spatial order. Only recently it had been agreed between the owners and buyers of Swakan-Chhemu that there was a need for an in-house embroidery and screen-printing facility to expedite the designing and sampling processes. It was then arranged that their regular embroidery subcontractor – a young Muslim man (see Section 2b of Chapter 8 for details) – should house two of his *kaligadhs* (artisans) in the Swakan-Chhemu complex. Where to place them was not very straightforward both from a business organisation as well as a ritualistic perspective. Both the artisans deployed to Swakan-Chhemu were Muslim migrants from the Terai and were as loud and 'women-less' as the stereotype suggested. Although there was a small room vacant within the main sampling area, it was unacceptable for not only Puja and Panday but also Rahul and Mani that these 'outsiders' work on the top floor. Since embroidery is a much cherished skill and also a tightly guarded business secret, it was also inadvisable to place them below the top floor. The only option left, then, was to develop the upper part of the mezzanine top floor as the embroidery and screen-printing room. The sub-floor got the necessary renovation to transform into a workshop; nevertheless, the Shakyas ensured not only that no provisions were made for additional light or air, but that the worst of the furniture was used in order to clearly differentiate it from the owners' space.

As in conventional Newar homes, it was clear that the upper floors of Swakan-Chhemu allowed only the 'insiders' to enter these territories. Who was perceived to be insiders or outsiders was less obvious and this varied among the various cliques within and between the floors. The lunch hour, which ranged from thirty minutes for most workers to a whole hour for some privileged staff, was the only regular time off they got through the working day. The owners and employers developed their own social and networking codes about lunch arrangements. The women in the finishing room brought their own

lunches and rarely left their room, even during the lunch hour. Their supervisor went to a nearby tea-shop along with the supervisors from other units downstairs, most of whom were also Newars from comparable castes. The Muslim artisans in the embroidery unit went to the same tea-shop but with other Muslim workers from the production unit. They performed their daily prayers together in the designated space. Puja and Panday, along with other Newar staff from the accounting, cutting and record-keeping units went together to another local tea-shop. Mani and Rahul either went home for lunch or skipped it. However, when either Kelly or John was in Kathmandu, Rahul's family sent lunch for everybody in the design room. Puja would join John and Kelly for this, but not Panday the Newar Hindu Brahmin even though they shared an office. Neither Mani joined these lunches nor any other staff from the accounting units. Instead, when the auditors were on duty, Mani's family sent lunches for everybody in the accounting room. Rahul and the designing team did not join his unit. Such informal practices show this important floor to be functioning as a virtual space with a hierarchical order embedded into it: Rahul, the buyers and the designers lay at the very core of it, surrounded by Mani and his accounting team, while the lower caste 'finishing' women and their supervisor were firmly kept at the periphery. More valuable outsiders – the embroidery team – was somehow guarded safely for the sake of their business secrecy but still treated as outsiders. We can see that the arrangements that Swakan-Chhemu workers made for their daily lunches not only reiterated this sense of caste- and ethnicity-based camaraderie and hierarchy among the workers, it also leads us to a discussion about the job division between the owners themselves.

Mani laid the foundation for Swakan-Chhemu and also built its initial administrative structure whereas Rahul added to it a new dimension of creativity and fashion design. Their current job division reflected this. Mani studied business administration in Massourie in India and his world was that of the global and local supply chain which was punctuated by State bureaucratic measures that control, among other things, import of inputs and interactions with local suppliers, filing of taxes, transportation of finished product and financial negotiations. He was the sole contact point for the regular fabric suppliers in Shanghai where his son later interned upon his MBA graduation from London. The rest of his interactions took place in the narrow circle of government bureaucrats and clearing agencies. Resigned to the inherent delays, inconsistencies and corruption in these areas, Swakan-Chhemu went on to subcontract most of these tasks to a handling agency under Mani's close supervision (see Section 3a of Chapter 8). Not

only as the finance manager of the firm but also as the older brother, Mani ensured accounts were kept current and that half of the factory net earnings were transferred to Rahul at the end of every fiscal year.

Rahul joined Swakan-Chhemu after he graduated in fashion design, and his area of responsibility was that of design, sampling and production of garments. Given that he had lived for a number of years in New York to earn his degree and hence had more exposure to the Western world, Rahul was also expected to handle most of the social and production-related interactions with the buyers and designers. He worked closely not only with Kelly, John and Puja in the designing room, but also the cutting master whose knowledge of fabrics had come to gain his respect over time. As time passed, Rahul was increasingly responsible for the smooth functioning of the bulk of the international production management including the cutting, stitching and finishing units.

#### **4b. The first floor: the world of fabrics**

The main wing on the first floor was the fabric cutting room that accommodated about twenty skilled workers. Swakan-Chhemu initially had three separate cutting units: the largest one for woven fabrics, was headed by Kaji, a Buddhist Newar; the second for knit fabrics, was headed by Rana, a Hindu Chhetri from Uttaranchal in the North Indian Himalayas; and the third and smallest was for leather fabrics, headed by Mohan Nepali from the Hindu untouchable caste. Kaji was the only one who had been with the factory from its very beginning, and naturally he was the most trusted of the three. Rana and Mohan were brought in purely for some experimentation on fabric diversification and their contracts were very clearly defined with no room for discretion or subjective interpretation. Such an organisational structure worked for some time, but proved inadequate when a serious accident took place on the factory floor.

Kaji was a skilled artisan in his forties who had been a professional tailor all his life and had worked for the Shakyas for years. When Mani decided to start his original garment business, Kaji agreed to work in the factory right away. As Swakan-Chhemu gradually expanded and upgraded to manufacture exportable garments in larger quantities, Kaji trained himself, bit by bit to use the larger fabric cutting equipment. By the early 1990s, he was proficient in operating electric fabric cutters that would cut a pile of several hundred sheets at a go. Unfortunately, one day, Kaji cut his arm while operating the machine. He was hospitalised locally but did not recover fully enough to resume his job.

Kaji had no sons, only a teenage daughter who was disabled and mute and he also supported an unmarried sister in her thirties. Under the circumstances, the Shakyas gave him early retirement and recruited his daughter and sister even though they lacked any of the industrial cutting skills. The vacancy for his position sparked a bitter rivalry between Mohan and Rana as to who might be chosen as the chief cutting master of the factory.

Mohan and Rana had both joined Swakan-Chhemu as independent franchisers, with little room in their contracts for discretion or trust-building. Later on, especially as they got to know the factory better and as the market potential for their products became more pronounced, they both became interested in stronger business relationships with Swakan-Chhemu. At the time of Kaji's accident, Rana's knitwear products were much more popular in the market than Mohan's leather products. In fact, Mohan's leather unit had been downsized to manufacture only accessories occasionally used for their woven and knitwear products. However, when it came to the social order, the fact that Rana was a devout Hindu, spoke only Hindi or Nepali (and the Kangra hill dialect that was similar to Nepali), and that his business and social network was concentrated on North Indians, made him not only less trusted, but rather suspicious a figure. Counter-intuitively, the Shakyas trusted and liked Mohan better despite his having brought little business to them. 'Mohan is as cheated by the *bramhus* (a Newar colloquial term for Bahuns) as we ourselves are,' Mani said with more or less the same conviction as he had said, 'we'd rather do no business with the *marshyas* (a Newar colloquial term for Indians).

Mani and Rahul had several factual and mythical reasons as to why it did not make sense for Buddhist Newar entrepreneurs to form alliances, however strictly business they might be, with Hindus, Bahuns and Indians. I was told how the Nepali government had long favoured Indian entrepreneurs over the indigenous Newars and how, for decade after decade, the Nepali Bahun bureaucrats had hindered (*saha maya*) the progress of Newars. They reminded me, as if to prove their allegations with hard data, that when the Rana Prime Minister Juddha Shamsher Rana had had to decide whether to rely on indigenous Newar businessmen or to import businessmen from India for the first-tier industrialisation process, the *ghushyaha* (corrupt) bureaucrats around him had persuaded him to issue a *pragyapan patra* (State letter of invitation) to the East India Company to send thirty Marwari businessmen to Nepal.

As Kaji took early retirement and it became clear that Rana's knitwear unit was there to stay and Mohan's leather unit to go, interactions between Rana and Mohan became ever more complicated. Rana thought Mohan misrepresented facts about him to the Shakyas while Mohan said Rana was 'a rotten *marshya*' (Madheshi) and was stealing money from the factory. After several bitter arguments, Rana left Swakan-Chhemu two years before I started my fieldwork. I actually met and got to know him well in another of my case study factories, Arya-Nepal3, where he had moved to. He was still bitter about his forced departure from Swakan-Chhemu, although in retrospect, he had come to see that there was more to it than Mohan opposing his every action and misrepresenting facts to the factory owners. 'Newars have properties all over Kathmandu. They do not work hard, nor can they cope with others who work harder than themselves. OK, Mohan wanted to brainwash Mani and Rahul so he could get a job. But they were no kids. If they could not see through such simple things, what else could one expect of such employers?'

Whatever the matter was, Rana was let go and Mohan was let stay. When I was doing my fieldwork, the extent of Mohan's influence in the factory operations could be seen from the fact that he had recently recruited two of his brothers-in-law to carry out the key tasks of fabric storage and accessories acquisition. Rahul respected Mohan's talents not only in fabric cutting, but also in sampling and the overall production process. In the strictly kin- and spatially-introvert world of Swakan-Chhemu, this was indeed a significant achievement. The way Mohan's stature grew in Swakan-Chhemu over the past decade is a testimony to the reality that vocations are no longer confined within the narrow caste order, and that the Newars must and do continually shape and further the conditions that make the production process more efficient.

Little else happened on the first floor other than fabric cutting. The large room was clearly divided into areas for woven and knit fabrics. Each section had a large table where fabric would be stretched out and layered; paper-cuttings placed on top to mark out the patterns; and finally cut. Kaji's daughter and sister both worked harmoniously under Mohan's supervision but they did not have any more responsibilities than several others working on the floor. Although Kaji's sister would refuse to follow orders at times if she thought Mohan was not treating her with due respect, there were no visible tensions on this floor, nor any indication that she might take over Mohan's leadership in the near future. Other workers were a mix of the Hindu Damais (tailors' caste) and

Sarkis (leather workers' caste), relatively lower caste Newars and occasionally one or two higher Buddhist Newar caste people. A smaller extension to the main room on the first floor was used as the fabric storage room. One of Mohan's two recently recruited brothers-in-law was slowly taking over the job from a low caste Newar woman who was preparing for maternity leave.

#### **4c. The ground floor: the labour**

Although Swakan-Chhemu was a modern building and relatively light and spacious, the construction and lay out of the ground floor echoed the traditional Newar *chheli* which were generally part storage and part *jyasa* (workshop) but clearly not a living space. Two extensions had been added in the case of Swakan-Chhemu, the first to accommodate a knitting unit and the second a hall that offered cooking, eating and sleeping facilities for the workers.

As in several garment factories in Kathmandu, the majority of the Swakan-Chhemu tailors were Madhesis and male. Unlike the extreme anonymity encountered by garment workers in mass manufacturing factories, the Swakan-Chhemu tailors showed a strong sense of community brought about through working regularly in the same factory for several years. The *naikes* (*juwadi* leaders who also were often also the village heads in these cases) in Swakan-Chhemu, a Madhesi from Lahan in the central Terai, had been regularly supplying workers from a cluster of villages in their vicinity for few decades. Swakan-Chhemu would charter a bus to these villages, and the village heads would literally summon artisans to get on the bus for a season-long trip to Kathmandu. Their counterpart in Swakan-Chhemu would arrange for board and lodging for them on the factory premises. At the end of the season, the contractor was also responsible for transporting them back to their villages on factory-chartered buses. They were fully responsible for the workers' loyalty and skill; in turn, they received the bulk payment upon completion of the order which they would then distribute among the workers. Workers did not defect from them because they paid more than the going rate and they in turn remained loyal to Swakan-Chhemu because other factories in Kathmandu no longer used the *naikes* nor the *juwadi* system.<sup>96</sup>

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<sup>96</sup> After the garment mass-manufacturers switched from the primitive *juwadi* system to the Taylorist chain system in the 1990s, they skipped the middlemen and directly hired and fired workers in their hundreds.

Swakan-Chhemu was a rare, if not the only, factory where the *juwadi* system still prevailed. The garment workers were kin among themselves. They formed a *khal* (gambling circle) of up to fifteen *juwadis* (gamblers) under one *naike* (team-leader and middleman), who worked jointly to produce stacks of garments. The *juwadi* system functioned under an apparent hierarchy where the *naikes* not only decided who stayed and who went from his *khal*, but also who did what and how much they would earn. Although the nature of job division rarely deviated from the standard norms, each *naike* announced rates for each part of the job to each *juwadi* depending on the overall rate secured from the employers. To this were added complicated calculations if daily commodity prices rose in the market or if they had to work through important social occasions. Outside nominal compensations, the *juwadis* also expected the *naike* to take care of any household emergencies that occurred back home while they were in Kathmandu. This included major and minor favours of advance payment directly to their families, mediation in local disputes, etc. With so many layers of obligations intertwined, the *juwadis* would stay together only if they shared ties that stretched beyond the factory workfloors. All the *juwadis* that I met in Swakan-Chhemu belonged to the same or neighbouring villages and had one or more affine or consanguine relations. There were two or three Nepalis among the Swakan-Chhemu tailors who were not Madhesis and had no relationship with the *juwadis* and they worked independently. In general, unless they had a serious fall out with the *naikes* or floor supervisors in Swakan-Chhemu, both *juwadi* and independent workers did not move elsewhere because of the higher wages paid. In turn, Swakan-Chhemu demanded from their *naikes* and *juwadis* better precision of tasks and longer term loyalty to the factory.

*Naikes* often brought adolescent apprentices from among their kin whom they called *bakaras* (goats). In return for on-the-job training, the *bakaras* usually lent a hand not only in tailoring but also in cooking and cleaning. When they graduated from the assisting chores which would have been carried out by women in traditional workshops, they joined the *khal* as *bona fide juwadis* and gave continuity to the rhythm of *juwa*. The fact that the *bakaras* took on the traditionally female chores in the factory reconfirmed my earlier statement that the Madhesis never brought their women with them, neither for companionship nor for assistance at work. This then earned them the reputation of being ‘dangerous’ and untrustworthy with women workers in the factory. I have already discussed how Swakan-Chhemu distanced the task of finishing of garments from the tailoring process. Although these two were probably the most closely related production

steps, it was not deemed right to station the hill women who did finishing work, side by side with the Madheshi tailors.

All of the garment workers in Swakan-Chhemu were Muslims. Their board and lodging followed Muslim norms, and arrangements were made for them to undertake their daily prayers in an adjacent open field. Although the workers from the ground floor socialised easily with the Muslim artisans from the embroidery unit who worked on the top floor, as seen from the joint daily prayers and lunches, no workers from the ground floor ever ventured up to the higher ones. The only people who went upstairs from the ground to second floor were the main *naikes*. One time when they were denied what they thought was a legitimate wage raise, they took four or five of their *juwadis* to have a broader discussion with Rahul the owner. Although there was no direct confrontation, the very act of ‘climbing the stairs to the top floor’ sent such shockwaves around the factory that they hastily resolved the matter within an hour and ‘the climb’ was never repeated. However, the workers continued to reconstruct the incident each time embellishing it further.

## **5. Resilience beyond the MFA**

I have already discussed how, unlike several other garment factories operating in Kathmandu at that time, Swakan-Chhemu remained unaffected by the breakdowns of the supply chain that occurred from time to time. In Swakan-Chhemu, the workers were organised on the basis of caste and locality and were remunerated well in the form of wages better than offered elsewhere. Thanks to this, they remained less affected by the Maoist proselytisation. Since the sourcing of fabrics, accessories and embroidery services were adequately hedged through personalised trust rather than business opportunism, the problems of supply chain fragmentation were easily overcome. Above all, it served Swakan-Chhemu well that their buyers were internationally competitive entrepreneurs who personally admired the cultural history of their producers. Further, the consumers of their goods were those who were willing to pay a premium for the symbolism of the local culture in addition to the value of the input materials. For Swakan-Chhemu, their niche in the global market was not subject to momentary policy changes such as the MFA and it continued its production cycles with full normalcy after the MFA expired in December 2004. If anything, its owners got more local prominence as several mass manufacturers left the field. For example, the older Shakya brother was nominated to the implementation committee when GAN set out to advise the government

on the simplification of paperwork required for declaring the rules of origin for export subsidies. This was a gesture of recognition of Swakan-Chhemu's business success. At the factory level, however, there was no visible change in the way Swakan-Chhemu produced its goods, or the way it formed its business alliances among the series of actors within and outside the factory floors, or more importantly, the way it behaved in the market and the way the market treated Swakan-Chhemu. The MFA expiration came and went without changing the way Swakan-Chhemu had always operated.

## Chapter 7: Cultural capital

In the preceding three chapters, I have shown how the producers of specialised garments survived the demise of the Nepalese homogenised garment industry through their dense cultural knowledge and skills. Unlike the economic policy scholars' picture of 'failed garment states' as being fragmented in their outreach to the market owing to problems of labour, input and entrepreneurial skills (World Bank, 2002), I have shown how the owners of Rongoli and Swakan-Chhemu successfully overcame the industrial crisis thanks to their rich and dense web of knowledge, networks and skills derived through kinship and ethnicity-based relationships. The current chapter continues the discussion and highlights the continual blurring of boundaries between what is purely cultural and purely capital – a dynamic taking place on the readymade garment shop-floors in the late twentieth and early twenty-first centuries. It discusses how the emergence of cultural capital in the context of global market integration has re-invigorated the ancient productive strategies of the textile traders (Marwaris) and culture traders (Newars) described in Chapters 4, 5 and 6 and asserts that the 'new', post-Taylorist economy intrinsically relies on pre-industrial sources of knowledge, networks and skills.

I examine the relevance of Bourdieu's discourse on the restructuring of the social classes for the widening and modernising 'field' of specialised garment manufacturing in Nepal. In his ethnography of the Nattukottai Chettiar, a prominent merchant caste from Tamil Nadu, Rudner (1994) examined the role of culture and social capital in the success of this efficient caste-based banking system. Drawing on the arguments emerging from Rudner's seminal work, my analysis revolves around the following questions: what is the relationship between formal and informal economic processes and how do they transform throughout economic development? What happens to the transactional knowledge, structure and rules that prevailed in the conventional economy once it expands beyond its original boundaries to embrace new opportunities or threats? How does the transformation of transactional knowledge and its distribution affect the existing social structure and power balance between various communities within an economy?

## **1. Cultural capital in manufacturing specialised garments**

The structuralist discourse led by Radcliffe-Brown and Durkheim engaged with the logic of economic analysis for ostensibly non-economic forms of power and social courses of action. Weber, Parsons and Malinowski substantiated further to argue that culture evolves in society-specific economic contexts which make some cultural practices economically flawed and hence unsustainable in the long run while other cultural practices are economically productive and hence institutionalised in the long run. My research shows how the culture-derived knowledge which contributes to the garment industry has emerged through a series of filters in which the producers of specialised garments – in large part because of their pragmatism concerning the way the global garment industry is constructed – have sought to be the kinds of industrialists and to have the kind of cultural capital that global consumers want. Following the Weberian and Parsonian tradition, I show that transactions economics underpin the reconstruction of culture-derived knowledge, which may give rise to what Ortner (1999: 58) called ‘virtual’ culture that would enable the agents to compete and survive in the world of global capitalist markets (see Chapter 3). My counter-argument, however, is that the ‘virtual’ culture is not independent of the ‘original’ culture in that how far the agents can stretch themselves towards economically pragmatic knowledge, skills and practices, depends largely on the position they start from, and the characteristics of that starting position. To address this multi-faceted issue, this chapter discusses the ethnographies of the readymade garment factories in Nepal (Chapters 4, 5 and 6) in the context of Bourdieu’s conceptualisation of cultural capital.

Bourdieu explained variation in culture and life-style by class position, yet he defined class in part by the distribution of cultural capital or aestheticism. His core argument is that aestheticism-derived class takes shape after the two parties involved have voluntarily legitimised it, and that any venture – be it economic, cultural or social – develops from the structure established through legitimisation of knowledge. This conception of cultural importance identifies principal sources of power as possession of different forms of capital (e.g., economic, social, cultural and symbolic) through one’s habitus. Habitus is neither objective nor innate but a ‘structured structure’ that derives from the class-specific fundamental dispositions that are internalised through early socialisation in family and peer groups. The mark of subjectivism extends to an ongoing process of adaptation that occurs as habitus encounters new situations, but this process tends to be slow and largely unconscious. Any social interaction that is underpinned by ownership

or lack of cultural capital is then marked by what Bourdieu calls ‘symbolic violence’ where the two parties maintain a tacit acceptance of the importance of elite knowledge or culture – or ‘distinction.’ He recognises that the dominant class is divided between those who possess only economic capital, the lesser fraction of the economic bourgeoisie, and those who also possess cultural capital, the greater fraction of the cultural bourgeoisie. Bourdieu’s postulation is that most economic conflict in modern societies is not interclass rivalry between the working class and the bourgeoisie but an intra-class rivalry between the ‘old’ and ‘new’ aesthetics, which is a continuous process following the incremental widening of the field.

I will differentiate between the deepening of cultural capital in the readymade garment industry in Nepal during its initial stage when it functioned within the ambit of local society, and its widening as the industry broadened its field to encompass an international clientele. In both the stages, the interlinkages between economic and cultural capitals are pervasive and the worlds of formal and informal institutions persistently overlapping. Such interlinkages have given rise to the use of cultural platforms for developing in-depth understanding as well as the actual substance and process of the material production. I will discuss two accounts offered to explain this phenomenon. First, Rudner’s work (1994) may be described as offering a ‘highly socialised’ account. He shows that the functioning of the South Indian caste group of the Nakarattars is organised around banking and territorial dominance and that the relationship between mercantile trustworthiness and economic power is reciprocal and functional. Among the Nakarattar elites, worship and commerce, purity and mercantile trust, and temples and politics function side by side. Rudner observes that although the history of Nakarattar caste institutions has been marked by a series of disjunctions, there is an underlying continuity that underpins the modernisation of commerce, suggesting an integration of the economic and cultural domains of social action.

The ‘highly economicistic’ accounts, on the other hand, have highlighted the importance of formal institutions as the basis of new knowledge within the industrial and macro-economic systems. Some examples include cost-benefit analyses of State incentives to encourage research and development, the establishment of training and vocational institutes, public-private partnerships to trigger innovation and protect its benefits through copyrights systems, etc. While policy and programme incentives may provide a formal framework for knowledge generation and transfer, informal institutions such as

familial and locality-based chains of knowledge transfer as well as caste and ethnic identities appear decisive in whether and how formal policy measures translate into actual business practices.

Economic sociologists emphasise that economic actions affecting formal institutions – including those concerning generation of knowledge and skills – are embedded in concrete, ongoing systems of informal institutions (Granovetter, 1985). Rational choice theorists argue that the set of resources that inhere in family relations and community social organisations are useful for cognitive or social development, which in turn has long-term economic implications (Coleman, 1984). Further, culture theorists argue that it is not enough to establish the existence of industrial knowledge and networks within culture, but it is equally important to examine how the cultural and ideological content of the former alters the configuration of the latter, since the two are inextricably intertwined (Bourdieu, 1993).

As a result of global factors and the cultural image of the country, the market indicates that Nepal has a comparative advantage in specialised garment products rather than scale-based homogenous products. Yet, it was only a select few industrialists – all from the old elite caste and ethnicities – who could afford to develop their businesses to capture this niche market. I have already shown in previous chapters that owners of specialised factories chose to produce materials which they already had acquired knowledge of through family legacies. Even when the market was promising, industrialists did not venture lightly into developing unknown products which demanded knowledge and skills which were not part of their hereditary family professions. In this, we see that the industrialists interpret the world of business opportunities and constraints through their mental models – or accumulated knowledge, preferences and networks – which are partly culturally derived and partly acquired through their experiences in business organisation. For these reasons, contrary to neoclassical assumptions, it was perfectly possible for multiple cultural groups within an economy to aim for, arrive at and sustain multiple equilibria of product demand and supply.

The Rauniyars, who are traditional cloth merchants, specialise in garment products which derive their special features from a sophisticated blending of manually woven fabrics. Although their designs could well benefit from an expansion of clothing styles, the Rongoli designers did not enter the unknown territory of fashion designing. Instead

Rongoli's production solely entailed ladies' jackets of the same size and fit, which were differentiated only by their use of fabrics, colours and embroideries. Swakan-Chhemu produced a wide range of men's and women's boutique clothing, but the core theme which gave them a common brand was the stylised Tibetan Buddhist iconography and the signature semiotics derived from it. This was the core they capitalised on, in order to capture their niche markets.

Another application of cultural capital in the readymade garment industry in Nepal entails the use of cultural institutions to facilitate contractual relations among the agents involved in production and distribution. Zucker (1986) and Moore (1999) use the notion of 'character-' and 'process-based' trust to conceptualise business networks and institutions that serve as a business infrastructure for the generation and sustenance of cultural assets capitalised in the industrial set up. Business structures and networks – or social capital as Putnam (2000) calls it – can be either based in the informal institutions of caste, ethnicity and kinship, or they can foster the cultural patterns of kinship through their rational relational obligations and interdependence. What is crucial for the sustainability of social capital is the added value it brings to the economic exchange.

An important element that is often missing in the discourse on social capital, especially in the version that Putnam led, is the acknowledgement that the role of social capital is uniquely contextual. For example, the business structure and the nature of networking were strikingly different between the two successful producers of specialised garments. Swakan-Chhemu and Rongoli both identified a common ground for business interests and then developed surrogate kinships with their buyers. The founders of Swakan-Chhemu used their cultural identities as Buddhist artists as the basis for being identified, rather passively, by their connoisseur of Buddhist art and philosophy buyers. Rongoli recognised its vulnerability to exogenous market crises and actively identified and approached a buyer who would be materially dependent on Rongoli to supply all his needs. Such relational dependency is not to be found in Arya-Nepal3, in which the owners formed business partnerships with industrialists of the same religion and attempted to legitimise these partnerships through religious rituals and events. While such an allegiance was convenient, it was not sustainable, as seen by the dismantling of this business partnership upon the change of the WTO policy in 2004 (see Chapter 4). This leads us to observe that trust and cultural capital are characterised by the specificity of the added value that they bring to the economic exchange in question. In other words,

the ‘cultural’ relevance of Swakan-Chhemu buyers was economically sustainable while that of Arya-Nepal3’s was not; and such subtleties are bound to steer the economic trajectories that the Buddhist Newar and Hindu Bahun-Chhetri societies in Nepal pursue in the long run.

While the role of cultural capital in the industrialists’ relationship with their buyers is to identify interests in common knowledge, its relationship with their employees is about regeneration of that knowledge which adds value to their businesses. Rongoli invoked cultural ideals amongst its workers to foster trust within its business organisation. For example, it preferred to employ entire families – as opposed to individual workers – so as to carve out a role for the factory owners as the interlocutors within family units and it nurtured the traditional stereotypes of caste, gender and age – be it disaggregating workers of different caste and ethnicity into different wage and work clusters, discouraging mandatory overtime schedules for women, or maintaining the codes of age hierarchies in day-to-day interaction among the workers. These were useful ‘lubricators’ of business organisation, which proved to be successful strategies in reducing wage costs and labour turnover in the time of normalcy and keeping labour resistance at bay in the time of crises. In contrast, Swakan-Chhemu chose to engage with the *naikes* and pay higher wages to workers at the bottom of the hierarchy in order to maintain labour loyalties and trust and reduce labour turnover, which was important for maintaining knowledge of production processes and product quality. Swakan-Chhemu recruited only its kin for indispensable positions. In contrast, the only labour management tool available to Arya-Nepal was, ironically, that of labour unionism (see Section 1 of Chapter 4) because the culture and wage-based labour organisation sought greater job security for workers than could be offered by the owners in the volatile world of mass production. At times, these proved inadequate to cope with the looming crises, as in case of the Hritik Roshan scandal and the Maoist labour union crisis (see Chapter 4).

This brief discussion points to important challenges to cultural capital in the context of its strictly economic value. Although Nepal has opened up to the international market for mass-produced garments, its core comparative advantage lies in specialised, ethno-contemporary garments for which it is essential that the producers derive their business knowledge and organisational systems from familial, ethnic and cultural legacies. In the variety of daily struggles occurring in this rapidly transforming industry, economic production and organisation draw on an extensive, yet deep-rooted cultural capacity to

utilise and transform knowledge and organisational practices, particularly against the looming challenges of scale-based global competition.

## **2. The context of cultural capital**

One of the most visible expressions of overlap between cultural and economic capital is the contemporary dominance of ethno-contemporary garment production over homogenised production in that the niche producers have survived the crises of the ending of the MFA and domestic political instabilities while the mass producers have not. The case of cultural capital makes cultural identities transformable into capital, which can be invested and harvested in capitalist ventures. The ‘distinction of taste’ that the cultural agents embody constitutes an important cognitive dimension as they set out to develop their business strategies in the world of contemporary capitalism. Set against a State that neither proactively dismantles nor formally acknowledges caste and ethnicity as a unit of classification among the Nepali people; and given the lack of any formal institution that works to transfer knowledge and skills across cultural groups (in this case, castes and ethnicities), communities pursue their cultural rituals and business activities almost in isolation from each other. But the ultimate global market that each of the cultural groups is now pursuing is increasingly a unified one. The newly emerging markets for culture-based production, however, spread beyond the narrow borders not only between cultural groups but also between nations and continents. In a rapidly globalising world, appreciation for cultural products from within and beyond a society is spreading as rapidly as consumerism itself. What this implies for the producers of such cultural products is that they are no longer dependent on local patrons for consumption of their produce, but rather can widen their horizons so as to reach potential consumers from different realms who would have been outside their habitus in the pre-globalised world. It also implies that they can no longer operate only within a tightly knit circle of friends and family, nor can they remain untouched by the vices and virtues of capitalism. In what follows, I will point to only a few of these cultural markets.

### **2a. Indra Chok**

In this subsection, I describe the social and economic interactions taking place at Indra Chok, the heart of cloth trading in Kathmandu, which is inhabited largely by immigrants from North India, and where Sabitri and Gaj Rauniyar of Rongoli met, married, lived and worked, until they moved to their new business venture (Rongoli) and home in newer part of Kathmandu. Indra Chok consists of roughly a quarter square kilometre with a

thick web of narrow alleys, and it was here that Gaj and Sabitri met all five of their key buyers who were instrumental in their decision to move away from Indra Chok to invest in their new venture, Rongoli. It was here where over four generations of Sabitri's family lived and worked and here where Gaj moved to from the small Nepal-India border town of Birganj as an adolescent to live with his sister and her in-laws.

Indra Chok is not only a market for women's traditional clothing and matching accessories but a women's cultural centre, of sorts, where women shop and socialise, especially to design their wardrobes for festivals and rituals. A substantial shopping trip to Indra Chok is a must for every would-be bride in Kathmandu, and her friends and relatives. Almost all the merchandise in every shop in Indra Chok comes from nooks and crannies of India, Pakistan and Bangladesh. Only very limited embroidery and finishing work is done locally, and then by immigrants from India. Almost all of their merchandise is handmade and/or are the products of cottage and small industries. In this, the Indra Chok economy in Nepal and its direct counterparts in various parts of India all lie at the periphery of the formal economy. They are traded through informal channels, often avoiding taxes and duties, yet they serve a clientele who are the elites of the formal economy.

At Indra Chok, the shopkeepers and suppliers not only exchange goods and jobs but also build economic and social alliances, which are essential if one is to penetrate the vast informal economy of weaving, embroidery and clothing manufacture from all over India, Bangladesh and some parts of Pakistan. Business networks are not constrained within a certain community – the Indra Chok businessmen must develop multiple trustworthy supply chains from different parts of these countries if they are to survive the cut-throat competition. An understanding of the business network is especially important because all production orders and financial transactions are conducted verbally and over a long time span, legitimised by sketchy paper receipts which, at most, serve more as memory-joggers than for any legal purpose. Shopkeepers develop their expertise from early childhood, through apprenticeships with parents or kin. Knowledge of product quality is especially important because, on the one hand, the supply chain consists of a vast diversity of products and production spaces with no codified standardisation to distinguish original from fake, and on the other hand, the clientele largely consists of upper and middle-class urbanite housewives of Kathmandu who are deeply familiar with the Indra Chok market and able to bargain hard for the best quality and value for money.

## 2b. Boudha

The north-eastern end of the Kathmandu valley is a bustling market of Tibetan Buddhist statues, thangkas, antiques, music CDs, Tibetan carpets and other artefacts. While the general artefacts, antiques, thangka and carpet businesses are distributed between Buddhist Newars and Tibetan Nepalis, statuary is still largely dominated by Buddhist Newars. Although different in substance, the statuary trade in Boudha has certain similarities with the cloth-trade of Indra Chok: First, it requires an in-depth understanding of the aesthetics of statuary art which can only be developed by being part of the tightly-knit social circle of the statue-makers; and second, since the chosen families of Newar Buddhists have a monopoly on statue production, the radius of trust that is so vital for this business is so uniquely narrow that there is hardly a business case for a transition from character to process-based trust, as the economic discourse on this would seem to suggest (Zucker, 1986). This might come as a disappointment for theorists who predict a conveniently linear departure from manual precision to mechanisation of the production process and from informality to formalisation of producers' networking.

The Buddhist statuary market of Boudha is less a market of pragmatic economic entrepreneurship where producers hold supremacy through the mechanics of their products; but more a world of aesthetics where they derive their distinction through their centuries-long caste dispositions. The fact that Buddhist Newars are perceived to be the only genuine producers of Buddhist statues is founded on centuries of Nepali history which saw them as the primary keepers of Buddhist philosophy in Nepal as well as conduits of Buddhism to the far-flung corners of the Himalayas, including Tibet. The history of the medieval Nepal-Tibet trade suggests that acculturation and counter-acculturation between the two societies was achieved through an exchange of commodities and philosophies of distinction (Slusser, 1982: 130-4; Rankin, 2004). Such culture-based history has been contained in modern statuary production and exchange, of which Boudha is a vibrant example. A typical statue shop in Boudha, as elsewhere in Kathmandu Valley, is owned by an art entrepreneur, who displays products made by kin and local friends. It is important to note that a professional artist would produce statues of only a few selected deities – the deities to whom the families have demonstrated their loyalties across generations. Occasionally, it does happen that statues are copied and ‘sinfully’ reproduced by novice artists. There is no formal mechanism to establish

copyright of designs. An *ad hoc* solution that the entrepreneurs practise is that they hide the best of their statues to show only to *khas* (real) customers.

Unlike the Indra Chok market where most, if not all, merchandise is imported from various parts of India, Bangladesh and Pakistan, almost all inputs for the statue market are indigenous. The brass or copper might be brought from India, but they are then heated and melted into moulds manually designed by the artists using locally available inputs such as wax and clay. The artists finish their statues using home-made chisels and hammers. The art is hardly codified; parents pass on skills to their children. As families undergo modern pressures, only one or two children are available to give continuity to the ancestral profession, while the rest follow more mainstream vocations that require training that takes less time and less serious dedication. Some families do take apprentices from outside but this requires the two families involved to remain the best of friends through several years of knowledge transfer. Almost no apprentice is taken from outside the circle of kin. It then becomes clear that while the Indra Chok market depends upon widening of social capital, the Boudha market requires its deepening.

### **3. Widening of the field**

One of the most visible changes that both Indra Chok and Boudha have undergone in the past few decades is their integration with actors and principles external to Nepal. In this section, I will discuss how formal macroeconomic policies have influenced this transition. Following the 1951 movement (which ousted the isolationist Rana regime) and the 1961 royal takeover (which instigated a formal industrial policy framework internally and a process of global integration externally), Nepal opened up to the first surge of tourism in the early 1970s.<sup>97</sup> International development aid agencies followed in the early 1980s, which ushered in a new elite class of expatriates (Heaton-Shrestha, 2004). The business instincts of the traditional bazaars' more ambitious men made them quick to realise that the tourists and expatriates had stronger purchasing power and higher social status than their regular local clients. This new clientele could not only enhance the prestige they had in their businesses, but also initiate knowledge transfer and exposure to a bigger market yet outside Nepal's borders. A significant number of former cloth-sellers and statue-makers quickly stepped in to fill this vacuum of ethno-contemporary souvenir clothing.

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<sup>97</sup> Although Nepal is now better known for backpackers' mountain trekking, the initial flocks of tourists were admirers of Nepal's architecture and social culture who spent most of their time within the Kathmandu valley and kept themselves busy with walking tours and shopping.

Before this exposure to tourists and expatriates, the tastes of the local clothing clientele for traditional cloth-sellers had been dictated purely by the social and cultural norms of exchange where profits were expected to be minimal, designs conventional and the idea of quality equated with durability. In contrast, the new clientele brought in ideas that would radically increase profit, as well as the view that daring creativity and innovation in design could be regarded as more important than product durability. These new opportunities thus liberated business hopes, which had previously been constrained by the structure of market and the rules of exchange between buyers and sellers.

This is not to suggest that every businessman would now compete for the expatriate and tourist market and abandon their old clientele. First of all, partly due to linguistic barriers, and partly to the suspicion and hesitation most businessmen showed regarding the perceived sustainability of the new norms, the less daring of them showed little interest in connecting with the new clientele. Second, exchange with new clientele necessitated a certain degree of embodied cultural capital, to be expressed in such things as verbal facility, general cultural awareness and aesthetic preferences. Those who were inferior linguistically or aesthetically did not qualify for the new market, and hence remained in the old.

In the years that immediately followed the tourism and 'development' boom, the new clientele was obtained by establishing social links with expatriates living in Kathmandu or through travel agents who could use their social capital to connect sellers with incoming tourists. Select entrepreneurs from Indra Chok, Boudha and other traditional markets, who were not only best placed to forge such links but also had accumulated a wealth of knowledge through their long-term affiliations with the old markets, succeeded in establishing a strong foothold in the upper echelons of the new market. A visible result was that particular corners in both Indra Chok and Boudha transformed into clusters of foreigner-oriented workshops producing innovative souvenir garments using locally manufactured inputs. It was common that one faction of a joint family – often the youngest son who could afford to take higher risks because his older brothers had already secured the joint family assets – would start such new ventures. Both the Rauniyars of Rongoli and the Shakyas of Swakan-Chhemu are good examples of this. By the early 1980s, there were at least fifteen similar factories which produced specialised garments for a not so large new local market comprising visiting tourists and resident expatriates.

They each had a small workshop employing five to ten workers and a retail shop on the periphery of the cultural markets such as Indra Chok, Boudha, Thamel, Patan, etc.

The second wave of change in the new cultural market came in the form of globalisation. After the second renewal of the MFA in 1982, Shah Safari established a purchasing house in Kathmandu and introduced subcontracting of mass garment manufacturing among over fifteen factories in Kathmandu. Subsequently, the 1992 industrial policy removed both tariff and non-tariff barriers to the export of finished products and import of raw materials required for production of exportables. The government subsequently introduced a series of policy incentives to encourage garment production and export from Nepal (see Section 3 in Chapter 2). What this meant for the small-scale producers of specialised garments was that they either chose to mass manufacture homogenised garments for Shah Safari and join the mainstream market, or they upgraded the quality and scale of their specialised production and tried to reach far-away niche markets beyond the local retail business with tourists and expatriates.

Both the Indra Chok and Boudha economies, situated in close proximity to tourist attractions, underwent a radical transformation during this phase which can be seen in the spatial transformation of the industry: The foreigner-oriented workshops which had been situated at the periphery of the cultural markets moved to the periphery of town which could better accommodate the needs of manufacturing on a larger scale. Interactions between producers and their clients were formalised and facilitated by means of communication. The self-contained structure of Indra Chok and Boudha entrepreneurs was no longer valid once the economy opened up to foreigners. It was imperative that the entrepreneurs now carve out new cultural roles *vis-à-vis* their new clientele in the broadened structure of economic positions, and that their products respond to the new and global tastes without fully losing their cultural imprints.

#### **4. Reconsolidating social classes within a widened field**

I have already described the process of reconstruction of the specialised garment industry as producers embraced waves of global integration both geographically and culturally. The current cultural construction of the specialised garment industry has emerged through a process of reconstruction and adjustment, in which the manufacturers – in large part, but not entirely because of, their dependence on income from garment-making and exporting – have sought to be the kinds of people and to have the kind of culture that

global consumers have wanted. Ortner (1999: 58) has discussed the reconstruction of Sherpa identity and emergence of a ‘virtual’ Sherpa culture, owing to their dependence on the vocations of mountaineering and tourism. One could argue that a similar feature is true in the case of garment-makers who have developed a ‘virtual’ culture entrepreneurship.

Originally, the international niche market valued the supply from the Nepali garment-makers for their capture of South Asian cultural capital. Some of the successful garment-makers offered unique textile combinations while others offered a fusion of ancient South Asian semiotics with modern fashion clothing. Some of the buyers of the Nepalese garments noted that they bought from Nepal because that gave them access to rich Indian textiles without having to expose themselves to the Indian ‘harshness and chaos’. Another buyer commented, during my interviews with them while in Nepal and later in London, on a certain identity-based cultural capital of selected garment-makers; that their chosen producers were ‘the descendants of ancient Lhasa traders’ which is enough attraction among the pro-Tibet clientele that we wish to target, followed by generic observations that Nepalis were ‘honest and easy to deal with’.<sup>98</sup>

The notion that Nepali garment-makers were honest, easy-going and the bearers of ancient culture took various forms. Sometimes, it entered into a near exploitative discourse that viewed their trustworthiness as easy to manipulate. Mostly, however, there was a straightforward appreciation of people who could keep positive attitudes under quite adverse business conditions. For example, after a lengthy and resource-consuming round of inspection of samples of clothes, it might happen – owing to changes in fashion tastes in the Western markets – that the entire range had to be dismissed and a second round of sampling started. Although pure business ethics would require the buyers to bear at least part of the costs arising from such last minute changes, most of the specialised garment-makers in Nepal felt compelled to bear most of it themselves.

These acts of compromise and the somewhat laid-back nature of the Nepali garment-makers in turn shaded into acts of outright service for the buyers. Garment-makers housed and fed their buyers in their homes; built extensions to their houses to provide

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<sup>98</sup> Based on interviews with John Paso and his associates who were the sole buyers and distributors of Swakan-Chhemu.

guest rooms for them during their stays in Kathmandu and even went to the extent of hanging their photographs on their walls along with those of family. The buyers took it that such loyalty and the service orientation of the Nepali garment-makers were the results of the ways in which business was conducted. Contrary, such a pure business outlook might have been shared by some garment-makers but not all, not even a majority. In fact, they related to a strongly established non-business notion, which ran through many aspects of their culture – of waiting upon, appeasing and seeking favour, or *chakari* (Bista, 1992). The buyers, on the other hand, were hardly aware of this aspect of their relationship. On their part, there was a tendency to view their relationship with their suppliers through the lenses of pure capitalism or business pragmatism, whereby the buyers justifiably refused to reciprocate the hospitality. For example, Gaj confessed that his buyer, who was among his closest ‘friends’, did not offer him cooked meals when he was visiting in Seattle. Despite minor disappointments such as these that occurred from time to time, the buyer-supplier relationship, from the suppliers’ perspective was one that was embedded in either profoundly kin-like assumptions or subservient enforcement of the hierarchical order.

An important feature of *chakari* or the hierarchy enforcement is that the person who receives *chakari* is more powerful than the one who offers it. However, this is a reciprocal notion, and the receiver’s power must be augmented through the returning of favours to the *chakari wal* (giver of *chakari*), mostly in kind, although at the whim of the patron. This, then, was the spirit in which the Nepali garment-makers served their buyers, which was often misunderstood by the latter, for whom manufacturing was a purely pragmatic business world where the role of culture in knowledge generation was not always extended to business or the social organisation that came with it. The Nepali garment-makers were occasionally disappointed by the non-reciprocation of the benefits of *chakari* from their buyers and they did air their disappointments, but only in the absence of the buyers. However, they acknowledged that they were ‘learning a lot about the garment market abroad by working with the buyers’, which for them might be the in-kind reciprocation they expected in return for their *chakari*.

The European and American buyers of the Nepalese garments often cited generosity, trustworthiness and loyalty as striking features of Nepali producers.<sup>99</sup> However, price squabbling, cheating and ripping off are equally real in producers' transactions with their compatriot clients. Both Indra Chok and Boudha markets are full of stories of poor quality products, overcharging, and unkept promises. However, it is important to note that the selfishness and lack of trust one sees in the Indra Chok and Boudha markets are related to the structures of social hierarchy in Nepali society. The nature of relationships between those who monopolise knowledge and those who consume the products of such knowledge is not an equal one. In essence, the relationship between an artist and an art consumer in a purely Nepali context is far from being a strictly capitalist buyer-seller notion where the former reserves all rights of selection and decision. A traditional business transaction would ensure that the seller would enjoy some discretion on quality and price of product, especially in the aesthetics market where choices are restricted. Incidences of large business deceit are disapproved of as fundamentally selfish and unforgivable, whereas small incidences are viewed as unfortunate but understandable. When the sums involved are large, Nepalis regard such flaws as upsetting, and the reaction when the deceit is disclosed is a pragmatic, 'we will no longer deal with him in future'. When the sums involved are minor, these are brushed aside.

Any change that emerged over time in the hierarchy between producer and buyer is also knowledge-centric. Inasmuch as the producers were seen as having the monopoly over the cultural capital essential for specialised garment-making for the local clientele, it was also understood that they would have the upper hand in the transaction. The buyer-seller relationship was essentially a non-hierarchical one. These dynamics changed when the garment-makers switched to a new field, e.g., production for international markets through collaboration with foreign buyers: The garment-makers no longer had the monopoly over the knowledge essential for production, which then translated into a shift in their relative status within the structured spaces. Their subordination stemmed not from innate characteristics but from unequal distributions of cultural capital in the new field they have entered. It was only after a tacit mutual acceptance that the field of struggle was worth pursuing, that buyers and producers entered into a complex series of negotiations that determined a new order of material and cultural positioning. Throughout such interactions, the parties involved remained relatively autonomous but

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<sup>99</sup> I conducted recurrent interviews with over twenty European and American buyers of Nepalese exportables during my fieldwork in Kathmandu. Upon conclusion of my fieldwork, I was able to follow up with some of them in London.

interconnected with the external factors. To sum up, the Nepali garment-makers continually shaped and furthered the conditions that made the work rewarding – deeper knowledge of the larger and more superior market they now penetrate – and that contributed to their own continuing empowerment.

## 5. Conclusion

Although Bourdieu was more concerned about the dominated classes and their social miseries caused by the new neoliberal structures of power, his insights about the struggles between the intellectual and economic factions of the dominant class offer a theory of class symbolisation which validly describes a nature and process of late capitalist culture.

My ethnography of three garment factories owned by members of the dominant cultural bourgeoisie shows how the structure of economic positions is translated into and recognised as cultural symbols, life-styles and identities inherent in individuals, which later are churned into commercially capitalisable assets. In the process of natural upbringing, people from different cultural clusters are subjected to a different set of material conditions of existence. Since the combinations of cultural and material conditions profoundly influence how people perceive and process new opportunities and challenges, people's reactions to a given social and economic scenario are necessarily characteristically different.

Bourdieu's view of field and its acculturation leaves aside the question of cultural changes. Gartman (1991) has further explored the 'dialectical' conception of culture as human praxis which may transform, as well as reproduce, the class structure. He does not differentiate between structural changes brought about by historical class struggles that are internal to the society and those caused by inter-societal conflicts. My work focuses on the latter. In this chapter, I have shown the dynamic interconnections in the specialised garment manufacturing industry between the institutions of class and culture, fostered by new capitalism that emerged from widening across national borders. At one level, such a widening entails deeper interdependence between culture-intensive and capital-intensive processes of production and exchange, at another, it requires class and cultural restructuring among the agents involved. Unlike the exclusively caste-based economic production highlighted by Rudner in reference to the Nattukottai Chettiar (or Nakarattars) from Tamil Nadu, where an insulated caste group acted as a complete

economic system not only in their home region but also in far-flung corners of South and Southeast Asia, the Nepalese readymade garment industry fostered overlapping and cross-fertilisation between caste/ethnicity-based entrepreneurial circles and those outside the caste or national units.

My brief examination of the exploitation of cultural capital within a mass manufacturing industry reveals that it gave rise to a new social order within the existing one. The emerging global garment market is a new economic opportunity open to all; however, owing to different cultural and material dispositions, various cultural groups approached the new opportunity differently. The old elite entrepreneurial groups (both the State-protected Marwaris and State-neglected Newars) came under great pressure from a restless new elite class (i.e., the Bahun-Chhetri entrepreneurs who came to enjoy power after the State restructuring of 1951) to modernise the emerging industry and deliver a rising standard of production. Finding little useful support from a weak and backward State bureaucracy, the old elites allied with international capitalists like John Paso in Swakan-Chhemu and David Willberg in Rongoli. In this new alliance, the Shakyas and the Rauniyars held positions structurally different from those in their old alliances that functioned strictly within the closed society. Seeking to carve out for themselves similar roles to those they would have in their kin-based vocational pursuits, the owners of Rongoli and Swakan-Chhemu initiated and created a new structure of relational obligations which elevated the functional, commercial forms of transactions economics.

## Chapter 8: Industrial organisation

The preceding chapters have established cultural capital as a key dimension in the society-specificity of knowledge economy and consequent economic organisation. Contrary to the assumptions of those who pursue classical economic theories, that the road to economic growth is about a linear departure from culture-based industries towards culture-less mechanised ones, I have shown that the producers of specialised garments have survived the demise of the Nepalese homogenised garment industry through the use of their dense cultural knowledge and skills in order to adapt to the transformations in the international garment trade regime. The current chapter is an extension of the culture-specificity argument: here I show, in addition to divergence in cultural knowledge, how the different patterns of social organisation and networks are relevant to the evolution of business organisation, especially in the context of the inherent desegregation of local politics against the background of a converging global market.

I address the three issues raised by Whitley (1999) in his influential comparative-business-systems approach on the society-specific divergence of capitalisms. First, to what extent are competition and cooperation between and within firms embedded in broader social and cultural authority and hierarchies? Second, what is the relationship between the new competitions<sup>100</sup> and the different forms of industrial organisation? And finally, what is the manner in which grassroots level political institutions have developed interdependently to the workings of industrial institutions? Indeed, the mental maps that guide the factory owners are crucial in determining their use of physical, social and business spaces, which in turn give rise to distinct organisational patterns within the readymade garment industry in Nepal. And this leads us to a scenario where industrial modernisation has less to do with a movement from character- to process-based and finally institutionalised trust, as Moore (1999) has cautioned, but more to do with further scrutinisation and contextualisation of trust *per se*. This is mirrored in the rise of a series of identity-based transactions in the wake of the new competition in the industry (Zivetz, 1992). While the organisation of homogenous producers does show a linear shift from character-based to institutionalised trust and contracting, except in a few contexts – for example, that of labour control – the organisation of niche market producers shows finer

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<sup>100</sup> By ‘new’ competition, I mean the intensifying demands from the international market, some of which is for products arising from the processes of flexible specialisation while the rest is for products arising from mass manufacturing.

selectivity within character-based trust. Moreover, each factory within the industry operates within the broader context of who the owners and the workers are, both economically and culturally; and how they relate to the political and industrial structures within which they operate. This situation, involving the pragmatic reworking of political and cultural institutions in the engagement with the new competitions is a new and unexplored phenomenon derived from local-global convergence at one level and industry-politics embeddedness at another. This is my point of departure from the last chapter, and here I go on to explore several chosen themes: if cultural capital reinforced the factory owners' competitiveness in a global market – as I claim in the previous chapter – what new organisational changes has this new local-global dimension ushered in on the factory shop floors? And now that the State is becoming less protectionist and global market demands more dominant in local economic arenas, what kinds of inter-firm relations are emerging between rivals and within supply chains? How do old notions reinstitute and what does such reinstitution mean for the redeployment of local political and cultural networks?

## **1. Organisation within the factory**

### **1a. Owners**

Arya-Nepal3 produced homogenous garments and catered to an international market that emerged out of the global economics of quota politics and the local economics of democratisation and liberalisation. This was reflected in the organisational structure of the Arya Group which was highly formalised: a board of directors, consisting of both youngsters and elders of the investor Jain family, a pool of 'chairmen' who were essentially the three Jain brothers or the heads of each family and finally the other managers who were outsiders recruited with clear job descriptions, designations and remunerations.

The Arya Group consisted of four garment and textile manufacturing plants supplying thirty-five trading houses all over India. In addition, they also supplied global buyers such as GAP, Wal-Mart, Marks and Spencer, etc. Arya-Nepal3, a satellite plant under the Arya Group, was managed by Navin Sharma, a Nepali CEO. How much and for how long Arya-India continued to fund Arya-Nepal3 depended on the extent to which Navin could keep Arya-Nepal operations financially afloat. In this, although Navin was a salaried employee, he was treated by both owners and workers as if he was a quasi-owner. Some of the respect shown him might also have come from the fact that Navin

was one of the owners and managers of its predecessor, Arya-Nepal2 (see Section 1 of Chapter 4 for details). Under Navin's direct supervision worked Sameer, the Production Manager, who in turn oversaw six floor supervisors and their junior assistants. Sameer also managed overall production and day-to-day business and took care of the merchandise supply chain as well as overall quality assurance. Sameer could take care of such a diverse range of tasks because Arya-Nepal3 produced cheap and homogenous garments, and unlike Rongoli and Swakan-Chhemu, none of the tasks in Arya-Nepal3 required specialised knowledge or attention to detail. Even quality assurance was simply about measuring the accuracy of plain stitching.

The fact that workers paid more attention to Navin and Sameer than to the real owners from Punjab, the Jain brothers, might also have to do with the fact that the Jains only rarely ventured to Kathmandu. They kept track of their business in Nepal through virtual means. There were formal and informal channels. Navin and Sameer formally sent periodic reports to the Jain brothers which presented the facts and figures which were the main bases on which important business decisions were made. Informally, the Jains kept themselves informed of the ins and outs in Arya-Nepal3 through the Punjabi junior managers who occasionally travelled back and forth between Ludhiana and Kathmandu for personal and business reasons carrying with them gossip and opinions. Although the Punjabi employees had the ear of the owners, they were not the ones who took real decisions in Arya-Nepal3. They did not speak Nepali and spoke very little with the Nepali employees below the ranks of Navin, Sameer and a few chosen others. I have described in Chapter 4 how the Punjabi vice chairman, originally deputed to Kathmandu when the factory was established, and who was expected to oversee Navin's work, was ousted through labour unionism over his *faux pas* against the Nepalis. After his departure, a Punjabi couple – Kul, the buyer liaison officer, and his wife Sonu, the merchandiser – were the sole confidants of the Jain brothers. Still, they were not the channels of official business. Since Navin, Sameer and the other Nepali supervisors did not get along very well with Kul and Sonu, their accounts of factory events were often contested and dismissed by others. Over time, the periodic reports and briefing notes prepared by Navin and Sameer formed the basis on which important decisions were taken by the owners. When it was deemed necessary, the frequency and formats of these reports were revised, and additional meetings or telephone conversations were arranged to go over factory business in a systematic fashion.

Such an organisational clarity did not exist in Rongoli and Swakan-Chhemu: What was more pronounced was the direct authority of the owners over the entire production process. Both Rongoli and Swakan-Chhemu were registered as sole proprietorships of one of the family members although other family members and kin had large stakes in them. Gaj Rauniyar was the proprietor of Rongoli although his wife Sabitri had been an informal business partner from its origin and still worked as full-time Production Manager without any salary. Swakan-Chhemu was registered under the sole proprietorship of the wife of the older Shakya brother who had no role whatsoever in factory operations. Other than the year-end ritual that calculated the annual profits and divided it equally within the family, the factory accounts showed no clear record of the division of resources between the two Shakya brothers who jointly managed operations.

Unlike Arya-Nepal<sup>3</sup>, the owners were also the managers in the specialised garment factories. The owners in specialised factories controlled factory resources more stringently and asserted stronger authority over the workers. For example, the owners had a direct role in hiring and firing each worker, and they enjoyed unlimited discretion in determination of their remuneration; accounting practices were primitive and *ad hoc*; and every node of the supply chain was tightly controlled by the owners. The Rauniyars in Rongoli almost lived in the factory; their family cook often cooked in the factory and the factory cook was summoned home from time to time to cook for the owners' family and guests; photographs of their key employees and buyers hung on the walls of their house alongside those of family members. It is true that the Shakyas in Swakan-Chhemu did not spend all their time in the factory like the Rongoli owners, nevertheless they spent a significant amount of time nurturing their identities as scholars of Tibetan Buddhism, which was, after all, the basis on which their buyers chose to do business with them (see Chapters 5 and 6).

The most important distinction between homogenised and specialised factories lay, however, in the roles of their owners in knowledge production. Arya-Nepal did not create its own designs and hence in this company, production was more about quantitative replication and standardisation of the sample. The owners need not have a role in it. In contrast, Rongoli and Swakan-Chhemu did create new designs and this part of the production was owned and managed by the owners. The Rauniyars' in-depth knowledge of the makes and colours of fabrics was something they inherited from their fathers and grandfathers who had been the textile traders of northern India and southern

Nepal. The Shakyas were not the specialists of cloths, but the Buddhist semiotics with which they distinguished their products from the rest in the market was again something they inherited from their ancestors who exchanged Buddhist artefacts and philosophies with Tibet. Both the Rauniyars and the Shakyas went out of their way to jealously guard their business secrets from leaking outside family boundaries – be it by forming kin-like relations with their key employees as in the case of Rongoli or by keeping the key creative positions within their tightly monitored kin circles as in the case of Swakan-Chhemu.

### **1b. Workers**

Arya-Nepal1 and Arya-Nepal2 had used the ethnicity-based *juwadi* system where brokers mobilised their kin and friends to stitch garments and kept jobs within the *khal* by controlling the working and learning processes (see Section 1 of Chapter 4 for details). Arya-Nepal3, however, gradually mechanised its production process after a Taylorist model, where tasks were standardised, codified and divided among the units of machinery and labour such that the task, the actor and the product became anonymous. Instead of seeking the loyalty of a small group of workers, as Rongoli and Swakan-Chhemu did, Arya-Nepal3 increasingly relied on a large pool of migrant labourers, who they hired and fired in hundreds at a time, as was necessary for production. Because it was illegal to deny workers a regular employment contract, Arya-Nepal went on to sabotage the labour unions and pre-empt possible labour resistance (see Chapter 4 and Chapter 9). Not only local labour laws, but also international labour standards which the global buyers heeded better, were against operation of factory floors at weekends and outside regular hours. The buyers, however, were pleased when producers offered them cheaper rates even if it was as a result of compromising their previously stated positions. Accordingly, all homogeneous manufacturers vied to outdo each other in running the longest hours of operation, and by doing so, achieving the cheapest production overheads. To do this, they had to offer appropriate incentives to workers. Piece-rate wages was their answer. Workers were rewarded for the number of pieces produced per month, rather than the number of hours or days worked. Although such a system was technically illegal and against the corporate business ethics of their buyers, it was popular among the manufacturers simply because it pre-empted labour shirking. The drawback of this system, however, was that the extreme emphasis on quantity made it very difficult to ensure quality of product through worker discipline. In mass-manufacturing quality was assured through machinery upgrading rather than by instilling

quality-consciousness among the workers. Such a linear mechanisation seemed to work well as long as the factory had purchase orders but when the MFA crisis put an end to these kinds of orders, Arya-Nepal3 could not mobilise its workers to manufacture something different that would help it approach a different clientele.

Such a Taylorist labour organisation stood in sharp contrast to the models employed by specialised producers like Rongoli and Swakan-Chhemu. Especially for the former, labour organisation was something that had to be checked and balanced by a great deal of coercion and cooperation. For example, in Rongoli, Gaj's office was located right next to the main staircase on the first floor so the owners could keep a close eye on the movements of the tailors sitting on the ground floor, as well as the designers and administrators sitting on the floors above. The majority of Rongoli workers had been full-time employees for more than a decade during which time they had contributed to and drawn from the work organisation in Rongoli. Shukra, who Gaj had recruited to start his workshop in 1986, recalled how he, along with four or five of his co-workers, once decided to quit Rongoli and join one of its rivals. One morning, all five of them collected their wages and quietly went off to the other factory, only to be amazed when the very next day Gaj came over, with a former minister friend of his, to fetch them back. Their new employer resisted, but the minister mediated the heated argument between the two factory owners, and in the end, all the workers were sent back to work for Gaj. While Shukra held a secret grudge against the Rauniyars for the incident, his wife thought it was for the better. She thought that although they earned less at Rongoli than elsewhere, it was 'better for them' because Gaj and Sabitri were her only confidants far from village and kin and whose support she could count on at times when Shukra wandered off to drinking and merry-making. Shukra himself was significantly subdued when his only brother, a healthy young man, was killed in a village fight on the peripheries of Kathmandu. Although the police case never really came to a conclusion, they spent countless weeks and months following up with the police and trying to find the murderer. Fatigued by the burdens of life, Shukra eventually resigned himself to the situation that it was at least comfortable to have their own 'Damai room' in Rongoli where he was free to work jointly with his family, children and fellow caste-members. He was also grateful that Gaj had supported him at times when he had to spend long hours in the police station, or was too depressed to work, and that despite everything, he could count on a fair degree of job stability as opposed to the rapidly changing labour environments seen in other garment factories. He certainly was appreciative of the fact

that this way his wife did not have to put up with the stares of the ‘loud and women-less’ Madheshi migrant workers.

The Shakyas in Swakan-Chhemu, for better or for worse, did not have such personalised connections with their workers although they had also stayed with them for decades. Such long-term loyalties had been achieved through *thekka* (contracts) with selected *naikes* and village heads from Terai who took care of the logistics of bringing the fellow villagers as *juwadis* to Kathmandu when the purchase orders came in and returning them to their villages when complete. Although the employment was irregular, the workers were happy because wages were higher in Swakan-Chhemu than elsewhere. In turn, the tailors had such low status in Swakan-Chhemu that they were all stationed on the *chheli* (ground floor) which had the lowest ritual status in the Newar spatial order (see Chapter 6 on norms of ritual purity among Newars). It was not that there was a formal law forbidding the tailors to climb the stairs to the higher floors, but it was implicitly understood by all that *chheli* was where the workers belonged and wandering elsewhere would be seen as inappropriate.<sup>101</sup> The higher floors housed the cutting masters, merchandisers and administrative workers. The owners’ and designers’ rooms were on the top floor even though this left them virtually oblivious to what was going on the lower floors.

It did appear that the order of caste, ethnicity and kinship played important roles in labour organisation in the modern garment factories producing specialised garments for the high-end market. In this interpretation, caste and kinship were more than the bowling-club type social capital that Putnam (2000) claimed it to be, in that these networks were not *de facto* aids to policy inadequacies. In fact, as Whitley (1999) showed, at some times social norms and networks could be a tangible cultural aid to industrial deficiencies, but at others it could act as an intangible obstacle to industrial rationalisation, depending on the specific contexts it operated in. The cultural order of caste and kinship was virtually absent on the factory floors of most of the Taylorised mass manufacturers.<sup>102</sup> On the other hand, caste and ethnicity were used as tools of

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<sup>101</sup> I have discussed in Chapter 6 how this sense of inappropriateness was in turn used to air their dissatisfaction when the tailors felt their wages were inadequate for the complexity of the task they handled. Only when ‘talking straight’ went unheeded, did the tailor *naikes* climb the stairs all the way to the fourth floor to ‘have a dialogue’ with the owners. This was done only very rarely, and since this would truly rock the boat, was seen by the *naikes* as the last resort of labour resistance.

<sup>102</sup> In this regard, Arya-Nepal3 came almost as an exception among the mass manufacturers. It was only here that workers were aligned into the two clear groups of Indians (Madheshis) and Nepalis

coercion to achieve business thrift by the specialised factories. In Rongoli, the owners' role in recreating the surrounding caste order on the factory floors was obvious; in Swakan-Chhemu, it was the spatial connection which united the workers and eventually helped establish a ritual order between the owners and workers still keeping their respective worlds distinct from each other.

It would be counter-intuitive for many economists that in the case of Nepal, it was not the Taylorised mass manufacturers who were coping better with the new market demands, but the specialised or niche producers who stubbornly clung on to the old cultural institutions of caste and kinship to organise their factory floors. The idea of 'new' competition refers to two types of competition that came to affect the garment industry. First, the end of the MFA in 2004 meant that Nepal lost its quota privileges in the American market, which now had to be compensated for by added competitiveness in product design and could be achieved only through specialised garment production. Second, the Maoist labour campaign in late 2004 which disturbed labour harmony in these factories could be offset only through a higher degree of personalised trust that seems to have been achieved only in those factories which maintained ethnic clustering on their shop floors. More than mechanisation or systematisation of factory organisation, ethnicisation seems to have been the factory owners' answer to new competition on both fronts.

Among the specialised garment factories who easily overcame the labour and market crises, further caste/ethnic dimensions can be seen at the higher end of the labour hierarchy. Junior managers were often of the same caste/ethnicity as the workforce and this position was an immediate promotion that workers aimed for and a way in which the owners could efficiently use their peer networks within the factory. Senior managers, however, were often of the same or harmonising caste/ethnicity as the company owners. Which caste or ethnicity harmonised with which was highly context-specific. A good case in point is Rana, a Chhetri from Kangra, in the foothills of the Himalayas across the western border of Nepal. He first worked for Swakan-Chhemu as a knitwear specialist helping them start their knitwear plant. The managers and later the owners of Swakan-Chhemu regarded him with great deal of suspicion. He particularly did not get along

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(Pahades). This might be a somewhat unique situation in that the capital in Arya-Nepal3 came from the Indians while the senior management positions were controlled by the Pahade Nepalis, and the latter had to keep the ethnic rifts going in order to rule the factory. Other mass manufacturing factories did not necessarily have such internal conflicts.

well with his rival manager of the leather plant who was a Sarki (a leather-worker by caste and an untouchable). While there were pros and cons of this rivalry to the way the Shakyas operated their business, the Shakyas maintained that it was ‘dangerous’ to rely on a Chhetri and an Indian. Rana was subsequently fired, and his plant handed over to the Sarki manager who was allowed to recruit a large number of his kin from the Sarki and other low castes. The Shakyas, who have been particularly suspicious of the Bahun-Chhetris, dismissed possibilities of building alliances with the Indians who were ranked equally with the Bahun-Chhetris; yet they approved the appointment of low caste managers and workers without hesitation. It was considered even better that a lot of the low-caste workers had denounced Hinduism and formally converted to Christianity. On the other hand, Rana subsequently joined Arya-Nepal where he was absorbed with ease as a fellow *pahade* (hill-dweller) and eventually re-emerged as a close ally of Navin and Sameer in resisting the influences being exerted by their Indian counterparts from Ludhiana.

While mass manufacturers like Arya-Nepal<sup>103</sup> perceived caste and kinship to be obstacles to labour organisation<sup>103</sup> that needed to be corrected in order to achieve global market standards of quantity and quality, specialised producers like Rongoli and Swakan-Chhemu derived loyalty and thrift from these very old institutions. Indeed, the mass manufacturers ‘discovered’ the new chain system that uprooted the old *juwadi* system and dismantled the old norms of how workers got hired and fired. This was not the case with the specialised producers. Rongoli and Swakan-Chhemu both exploited the caste and kinship ties of their workers for their hereditary artisan skills as well as their caste-based loyalties. Swakan-Chhemu did pay their workers higher wages to keep them within the factory, but an arbitrary distinction between who were ‘their workers’ and who were not was something they could realistically maintain only if there was a strong sense of clanship amongst them. Such a sense of belonging, reinforced by their kin-based loyalty to the *naike* (in this case also the head of the villages that *juwadis* came from), was essentially what prevented random entries and exits of workers into Swakan-Chhemu. Rongoli, on the other hand, actively participated in the personal worlds of their workers to evoke individual loyalties (e.g. in Shukra’s case). It also recreated a social and cultural hierarchy on the factory floors (e.g. the caste order of artisan and tailor

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<sup>103</sup> But not necessarily organisation of ownership and management as we can see from Navin and Sameer’s relationship with the Jains and other Indian managers.

castes) to justify wage and status differentiation among workers which they used to cut their overall costs.

## **2. Organisation of non-factory components**

### **2a. Buyers**

The fact that Nepal exported over 90 per cent of its garments to the North American market, but that these exports made up less than 0.01 per cent of the latter's total garment imports, is a good reflection of the power disparity between producer and buyer. Owing to this disparity, most of the garment factories remained largely buyer-dominated in their transactions and this was clearly reflected in their terms of trade. Most of the smaller factories manufactured on cut-make-price (CMP) provision where the buyer was responsible for most of the risks and subsequently walked away with the higher chunk of the profit. Arya-Nepal, being a larger factory, fared slightly better but not much. It acquired a letter of credit (L/C) based on cut-make-trim-price (CMTP) conditions, where the producer had greater flexibility in input acquisition. A regular L/C could be cashed only after delivery of the shipment, but garment exporters could draw back-to-back L/Cs of up to half of the original L/C value for the purchase of fabrics and accessories.<sup>104</sup> The L/Cs often offered 'free-on-board' facilities,<sup>105</sup> but these did not cover insurance for delays, which meant the producer paid for all additional costs if things went wrong in any one of the myriad of ways possible. For example, labour strikes and road jams often delayed shipments and the producers often ended up paying for expedited shipping or air transfer. Or, when there were quality issues, buyers hastily cancelled L/Cs and the producers were left with no money and a factory load of garments they could not sell. Such incident would easily make entire operations insolvent. For example, Arya-Nepal2 had closed down because the buyer rejected a large consignment over quality disputes. Arya-Nepal3 closed down because it was forced to airfreight three consecutive consignments to Kolkata owing to labour disruptions instigated by various political crises in the country.

Swakan-Chhemu and Rongoli were exempt from such vulnerabilities because they produced specialised garments for niche markets which their buyers could not get from other suppliers. The uniqueness of their products was qualified either by the complexity

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<sup>104</sup> In other words, they would use the L/C as collateral and take loans from local banks to finance their merchandising.

<sup>105</sup> In this agreement, the buyer would bear all transportation costs once the merchandise was uploaded at the designated port.

of the designs created and sophistication of materials used or the authenticity of the cultural claims associated with production. For example, Swakan-Chhemu regularly received an advance payment of up to fifty per cent of the consignment value before the merchandise was shipped. The buyer also paid as much as seventy per cent of the sampling costs in addition to fully financing the stay of a European designer in Kathmandu during the sampling phase. This had much to do with the fact that in order to secure a global niche market, Swakan-Chhemu's buyer had to capitalise on the authenticity of the Shakyas' ethnic identity as well as on their traditional knowledge and networks. In Rongoli, pricing was consensual between buyer and producer, and the producer regularly received full advance payment before the production process had even started. Although Rongoli's niche market was not contingent upon the authenticity of the owners' ethnicity, the buyers were dependent on the Rauniyars for their rich knowledge and networks related to the traditional Indian textile industry that was accessible only to a few select families in this Nepali context.

## **2b. Actors in the supply chain**

Arya-Nepal followed what Knorringa (1996: 59) called a 'direct-control regime' which was a clear-cut manifestation of a hierarchical organisation for smooth functioning of the supply chain. Buyers and financiers enforced some aspects of Arya-Nepal3's compliance to merchandising and finishing terms through payment mechanisms. This was suitable for the Taylorist production method that Arya-Nepal3 followed, where there was little performance ambiguity; and any possibilities of moral hazards were best dealt with by financial checks and balances. In contrast, Swakan-Chhemu and Rongoli maintained their supply chains in what Knorringa (1996: 59) called a 'network regime' which marked a kind of relationship between firms and institutions that lay somewhere between the perfect market system of interchange and the completely integrated giant corporation. The features of the network regime were derivatives of the broader social order, and hence it varied between Swakan-Chhemu and Rongoli as it reflected the difference in the characteristics of their broader social organisations and trust patterns. I will substantiate this argument in the following paragraphs.

Arya-Nepal3 had little control over its fabrics supply. I have described in Chapter 4 how it was forced to source all of its fabrics from the textile arm of Arya-India, its sole financier, with payment in US dollars although the preferred mode of transaction was the Indian rupee (with which Nepali currency is fully convertible). Such unrealistic terms of

trade were imposed on Arya-Nepal3 because of its awkward position in that it was neither fully integrated nor fully independent of its giant Indian counterpart, Arya-India. Arya-India claimed all of the profits generated by Nepal's privileged status on MFA quotas and it also pocketed large sums of fiscal incentives on offer from the government of India (see Section 3 of Chapter 4). A similar awkwardness dominated Arya-Nepal3's garment finishing<sup>106</sup> task and freight forwarding services which were also franchised outside the factory: Large multinational brands such as Gap and Wal-Mart had their preferred service providers for freight and finishing services, which manufacturers like Arya-Nepal were obliged to use. Lesser and no-name brands did not have such preferences, in which case manufacturers instigated a chain of self-defeating competition among the local service providers. There was no floor pricing in this sub-sector, nor was there a clear legal remedy or arbitration procedure, should disputes arise between manufacturers and service-providers. Opportunism was bound to be rampant in these zero-sum adversarial contracting arrangements.

Swakan-Chhemu, on the other hand, maintained a steady alliance coordination of its fabric supply and was a regular buyer of certain types of fabrics from certain suppliers. Although it initially experimented with fashion designing on cotton and leather, later on it focused exclusively on organic hemp knitwear. Which fabrics Swakan-Chhemu chose or did not choose to use over time depended not only on the way the market developed but also how the Shakyas' own business preferences developed. The first knitwear specialist in Swakan-Chhemu was Rana from Kangra who sourced fabrics from Chandigarh. Because the Shakyas believed that the Bahun-Chhetri employees and suppliers were not to be trusted, they eventually gave the job to Sarki Mohan who worked with the Shakyas to figure out how to switch the source of fabrics supply from Chandigarh to Shanghai. Once they identified a new and reliable (Chinese) supplier, their alliance with it was strengthened through continuity of business over the years. The two factories even exchanged staff to educate each other in their workings and doings. Mani's son participated in this training from Swakan-Chhemu's side. Such nurturing of obligational contracting could also be seen in with Swakan-Chhemu's service-provider for embroidery and screen-printing. The regular service-provider was a very young (and orphaned) Nepali Muslim from the western Terai. He was a skilled artisan but since he did not have a guiding hand, he apprenticed to his uncle who paid him only nominally.

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<sup>106</sup> Garment finishing for Arya-Nepal3 included the work on embroidery and screen-printing. Although finishing also involved washing and pressing of the garment, these were usually done within the factory and hence not subject to buyers' discretions.

Swakan-Chhemu took him under its wing and his business prospects improved significantly. For example, he now employed nine other artisans and made five times as much money as before. In return, he had to stop working for his other patrons because Swakan-Chhemu was concerned that its business secrets might not be safe if other customers walked in and out of their service workshops. Abandoning his other clientele was not a major problem for the service-provider because Swakan-Chhemu paid him higher than market rates. In addition to secretism and loyalty, it was also expected of the service provider that he would act swiftly and creatively when there was a wave of fashion change in the market and designs had to be altered overnight. In a high-end fashion world that Swakan-Chhemu operated in, this did happen occasionally and the service-providers worked day and night along with everybody else involved in the chain of production to ensure that the buyers ultimately got what they had asked for.

As for Swakan-Chhemu, the waves of market change were frequent for Rongoli also, and the ability to continuously adapt and improvise remained the key to success in ensuring that its supply chain did not fail them. Rongoli nurtured obligational contracting in its fabric acquisition since its products required quilt-like combinations of strikingly different materials. This meant that Rongoli could not rely on one supplier but had to juggle various options to keep a steady supply of diverse fabrics available at all times. Gaj worked very closely with his merchandiser, Smita, a young Indian woman from Delhi, in order to coordinate his trips to the weaving villages in various Indian states. I have discussed in length the complexity inherent within the informal segment of the weaving industry in India from where the fabrics came. For example, in Benares, Rongoli navigated endlessly through the complex connections between the established *gaddis* and the individual workers who were only loosely linked to them. In Karnataka, it turned down more the straightforward options of *rokdas* and *sattas* to engage with the complex and risky *mungada* system where the buyer provided all inputs and individually chased each weaver until the latter turned in the fabrics and collected their wages.

After Gaj had approved the samples and negotiated prices, Smita worked closely with the weavers to ensure the smooth logistics of payments, fabrics collection, quality maintenance and transportation to Kathmandu. As I have described in Chapter 5, the relationship between Gaj and Smita was a very close one. That they spoke at least once a day and that Smita was with Gaj every minute during his trips to India, caused serious tension between him and his friends and family. At times, this relationship even

threatened the stability of Gaj's own marriage to the extent that friends had to mediate between them. This followed a solemn agreement that Smita would never return to Kathmandu but instead would continue to work as the sole merchandiser based in Delhi. She was now married, but the Rauniyars continued to exert enormous demands on her day-to-day life. This might have been the only way Gaj could maintain full control over the otherwise loosely connected supply chain which was at the heart of his business.

While fabric supply was an autonomous component directly preceding garment production, embroidery, which was almost always subcontracted, was a subcomponent within production. In these paragraphs I will describe some of the ways in which Rongoli exerted control over its subcontractors. As I have discussed above, in Swakan-Chhemu, the subcontractors were independent firms but they were all strategically allied with the lead firm. The alliance was much more pronounced in Rongoli. Each of their embroiderers must make several trips to Rongoli every week – to collect work pieces and discuss embroidery requirements with the designers; to get initial approval and Gaj's approval for the first piece; and to note any changes in plans the designer deemed necessary. If there was a shortage of tailors, as often was the case during festival season, embroiderers had to be prepared to switch roles and fill in for the tailors. Above all, they had to keep the utmost secrecy about Rongoli's designs – two of Rongoli's administrative staff had been especially asked to keep an eye on them which they did by socialising with the embroiderers' landlords, neighbours and friends.

Rongoli regularly subcontracted its embroidery work to three subcontractors: Rajeev from Kashmir, Sonu from Rautahat in western Terai and Raju from Kolkata. Rajeev and Sonu had worked exclusively for Rongoli for the past fifteen years. In June 2003 when I started my fieldwork, Rajeev was undergoing a personal crisis. He was a widower in his fifties and was keen to remarry, but this was vehemently opposed by his adult children from his first marriage. Among others, Rajeev's daughter, who was also an employee in Rongoli, complained about this to the Rauniyars. Gaj tried to persuade Rajeev to refrain from the new marriage for the sake of his *ijjat* (social reputation) but Rajeev did not heed the advice and went ahead with the wedding. Over the months, the issue escalated such that the Rauniyars stopped giving him work and he had to let go eighteen of his twenty-one artisans and his family went into disarray.

Like Rajeev, Sonu had also been with Rongoli for almost two decades, and had seen the rapid expansion and increasing sophistication of production in Rongoli. Sonu's family was originally from the embroidery district of Lucknow which was famous for India's traditional *chikankari* embroidery. His family migrated to Rautahat, the western Terai district in Nepal when he was young. Sonu used to be a tailor in Rongoli until Gaj discovered his hidden embroidery skills, gave him a loan to buy his own machine and took him on as a subcontractor. Sonu paid back his loan within six months, and then took another to buy two more machines and employ more workers. After about ten years, he now owned twenty-five embroidery machines and employed thirty-two artisans, most of whom were his kin from Rautahat and Lucknow. Although Rongoli paid him more or less the same rates as other producers paid their embroiderers, Sonu did not consider taking work from other producers because he felt indebted to Rongoli for his career growth.

After reducing the amount of work given to Rajeev, Rongoli still had unmet embroidery needs, which it began to subcontract to Raju, a shy artisan from Kolkata. He was working for retail clients before being approached by the Rauniyars who had heard of him through one of its trusted tailors. Gaj not only offered him work right away and rates that were *mag bhanda badhi* (more-than-was-asked), he even made the effort to personally visit him in his workshop a couple of times. Gaj's personally making the trip all the way to a shabby corner of town obviously made a big impression on Raju and his fellow artisans. Of course, before showering him with such favours, Gaj had carried out a rigorous background check on his kinship and business networks in the market. He had also sought feedback from his buyer on Raju's *iman-jaman-saman* (character and performance). He had also introduced Raju and Sonu to each other to make sure that Raju was fully aware of Rongoli's ability and willingness to reward loyalty.

Although Rongoli's piece-rates were the same for all three of its artisans, payment methods were different. For example, Raju received full advance payment on the grounds that he was only just starting his business and hence had more need of the money. Rajeev rarely got his payment on time and this worsened rapidly after his refusal to take Gaj's advice on his remarriage. Sonu's payments were regular when there was an urgent need to buy or fix machinery. At other times, payments were often delayed. It was common that, in addition to submitting the invoices, artisans would come to see the Rauniyars with increasingly compelling reasons why they should be paid sooner.

### **3. The factories' relationship with the State**

In this section, I will describe how State industrial policies and regulations have affected the operations of the garment factories. In my historical reconstruction of the garment industry in Chapter 2, I have shown the slow process of internalisation of this industry by the Nepali entrepreneurs as well as the Nepali State. Shifted to Nepal from India in the 1980s to serve the function of a satellite industry, garment making was acknowledged by the Nepali State only in the late 1980s. It was only after Nepal underwent a massive industrial reform in 1992 that the State issued policies and provisions specific to the readymade garment business. Although most of the garment industry policies were meant to be objective and universal, they were often inadequately pronounced and weakly enforced. Hence they were subject to context-specific interpretations and applications. Depending on the nature of the relationship different caste entrepreneurs had with the State and the ruling elites, these policies and provisions were bound to have different interpretations and applications. In the following section, I will outline some of the examples I noted during my ethnography.

#### **3a. Subsidies on imported fabrics: the duty drawback**

In 1994, the government introduced a duty drawback System, which made provision for the tariffs paid on fabrics imported for the manufacture of exportable garments to be reimbursed. The average import duty on these fabrics was 19.5 per cent,<sup>107</sup> and when reimbursed, this made Nepali exporters more competitive in the global market. The problem however was that every reimbursement required a long trail of complicated paperwork. To correct this, the duty drawback system was integrated into what was called the Bank Guarantee System in 1996, whereby duty would not be paid and reimbursed, but would be counted against a bank guarantee from the exporter in an automated process. The new provision made this incentive highly attractive to the garment exporters.

It is important to note two important features of the duty drawback system. First, duty was only charged on 85 per cent of the fabrics export volume; the remaining 15 per cent being considered wastage. Second, the production cycle had to be completed within eleven months for the duty to be drawn back. In other words, imported fabrics had to be converted into exportable garments and loaded to an international consignment for the bank guarantee on duty to be released. Both of these provisions were designed with the

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<sup>107</sup> This included 12% import duty + 6% 'other' charges + 1.5% VAT.

production schedules of the homogeneous mass manufacturers in mind. Neither of them were suitable for manufacturers of specialised garments: They ‘wasted’ (or consumed) far more fabric than was allowed under the State provision and their turn-around time between import of fabrics and export of garments was much longer than those of the mass manufacturers. The two specialised producers – Swakan-Chhemu and Rongoli – both suffered under this system, but the way they handled it was markedly different. How much each of the specialised producers benefited from the State duty drawback system depended a great deal on their overall relationship with the State and the ruling elites. I will describe this in the following paragraphs.

Between May and July 2003, Swakan-Chhemu’s fabric wastage ratio was 32 per cent, or 17 per cent higher than was permitted by the duty drawback system. It reduced to 18 per cent in June and increased again to 27 per cent in July. In other words, there was little consistency in the wastage ratio except that it was consistently higher than was permitted under the government policy. It also took much longer – sometimes years – before its designs brought in any purchase orders. Swakan-Chhemu, first with the help of the local Newar politicians and then with the help of its limited contacts among the State bureaucrats, made endless efforts to seek some flexibility on this from the government but their endeavours went unheeded. ‘The *khen* (the ruling Bahun-Chhetris) government never ever listens to us Newars. They especially brought in the Indian Marwaris to let the Newars down,’ the disillusioned owner of Swakan-Chhemu said when asked about his relations with State bureaucrats on duty drawback and other administrative issues (see Section 3a of Chapter 8). Eventually, in 1999, Swakan-Chhemu brought a processing firm, Speed Logistics Services, on board to oversee all administrative processes that required any interaction with State bureaucracy. Speed Logistics Services belonged to a retired civil servant from the Ministry of Commerce, and a Bahun. All of its employees were former employees of various Ministries and were Bahun-Chhetris. Their clients largely included non-Bahun-Chhetri and non-Marwari businessmen, including some expatriate investors, who owned profitable businesses in Nepal but lacked a good understanding of how the cumbersome State bureaucracy operated. Speed Logistics was considered efficient in most of its tasks, but initially they also failed to negotiate a concession on duty drawback system on behalf of Swakan-Chhemu until an opportune incident strengthened their position *vis-à-vis* the State.

In 2001, the European Commission sent a team to Nepal to investigate the production mechanisms of EU-bound garment exporters in response to a scandal it had discovered where fake shipments which claimed to be Nepali were actually being imported from China to reap EU ‘derogation’ benefits.<sup>108</sup> The investigation team audited production of all EU-bound exporters in Nepal. While a lesser known factory was convicted and penalised for misusing its registration, the investigation committee commended Swakan-Chhemu who had emerged during the auditing process as one of the few credible Nepali exporters to the EU. Speed Logistics took this opportunity to renew its negotiations with the State bureaucrats on flexibility for Swakan-Chhemu in the duty drawback System. As an exceptional goodwill gesture, the government approved an additional 5 per cent wastage, but the issue of the duration of the production cycle remained unsolved. After all this, Swakan-Chhemu estimated that less than half of its duty claims were reimbursed.

Rongoli had similar issues regarding fabric wastage and production cycles, but it successfully used both issues to its benefit. Rongoli’s average fabric wastage ratio was 23 per cent, but unlike Swakan-Chhemu, it was very successful in negotiating large concessions from the government on this. In response to Gaj’s request, the Department of Industries (DOI) designated a section officer to work with Rongoli to exclusively ascertain a product-by-product fabrics wastage ratio (see Section 3 of Chapter 5 for details). Since the DOI official was not a design specialist, the negotiation was driven from Rongoli’s side, and Gaj agreed that they were happy with their handling of the duty drawback provision and that the amount of money involved in this was a significant part of their overall business profit. Gaj and his fabric administrator maintained close relationships with the designated section officer and other DOI employees. Almost all of the DOI employees, including the officer specially designated for Rongoli, were Bahun-Chhetris. The bureaucratic relations were formalised through socialised relations and cultural rituals were often used as tools to legitimise them. For example, the key employees in Rongoli, who were also Bahun-Chhetris, received *tika* from the DOI officials during the Dashain festival, the officials were invited to social events in the

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<sup>108</sup> European Union (EU) allowed duty-free entrance to garments from developing countries under an ‘everything but arms’ (EBA) initiative. However, under the ‘rules of origin’ condition that dictated EBA, the exporters had to demonstrate that the goods being exported were made from inputs produced either within the exporting country or the EU. Only select few countries were exempt from this stringent rules of origin requirements under an addition provision called ‘derogation,’ under which especially poor countries – Nepal one of them – were allowed to use inputs imported from a third country for production of goods to be exported to the EU.

factory and Gaj frequently brought token gifts for the DOI officials when he returned from his business trips abroad.

Although it took equally long before their samples started to yield purchase orders, the production cycle was not so much a constraint for Rongoli as it was for Swakan-Chhemu. When Gaj toured India to buy fabrics, he brought back only small quantities for use in designing and sampling. The rest of the fabrics were stored in his Delhi office under Smita's supervision and were despatched to Kathmandu only after the samples were approved and purchase orders finalised. Although the village weavers were paid nominal prices in Indian currency, Smita's firm quoted prices to Rongoli in US dollars and they were often inflated. Dollarisation of the transaction made Smita's firm eligible for the export incentives offered by the Indian government. In reality, although Smita's firm had formal registration documents, they were still Gaj's properties and her own earnings depended largely on the discretion of the Rauniyars.

The formal State policies on duty and taxes as well as the regulations on business operations had different implications for garment factories and entrepreneurs depending on what they produced and who they were. Inasmuch as the worlds of specialised producers – who were few and far between – were beyond the direct comprehension of State policymakers, the focus of State policies was primarily on the mass manufacturers. How the specialised producers either turned these formal policies to their advantage or were constrained by them was something that depended on the broader (informal) social order under which they operated. A diverse range of things such as religiosity and the calendar of festivities, languages and behavioural preferences, global events and informal business cliques all contributed profoundly in determining how a given piece of formal State policy would be interpreted and applied under any given circumstances.

### **3b. Visa, customs clearance and transportation**

The time, costs and transparency of custom logistics and transportation were significant components of business efficiency. Once a consignment was ready for despatch, factories had to obtain a 'visa' for each piece of garment being exported to the US so it could be tallied against the quota granted for Nepal (see Section 2 of Chapter 1 for details). If it was for the European market, they had to prepare documentation to meet Generalised System of Preferences (GSP) and Derogation requirements so as to have the import duties waived. Once the documentation was complete, the goods were physically

transported out of the country either by air or land to their final destinations. Industrial policies and procedures were as much the fronts where factories strategised for efficiency and profit, as were organisational norms and knowledge instruments. On the question of how such strategies were embedded into a broader social organisation, in the rest of this subsection I narrate and contextualise the choice of strategies in the three factories studied.

The pre-1992 garment industry essentially barred the non-elite businessmen from the quota access as well as the opportunity to register their business. Although the business registration process was made more transparent and accessible under the new industrial policy of 1992, the quota was still hedged on behalf of the elites through secretive channels for dissemination of information and a series of manipulative bureaucratic procedures. We know from the history of Arya-Nepal3 that Arya-Nepal1 was an unregistered factory and had no access to quota and Arya-Nepal2 had only limited access, which was achieved only after a massive investment of time and effort. By the time Arya-Nepal3 was registered, the DOI had delegated quota management functions to the Garment Association of Nepal (GAN) and the quota monitoring and approval system was automated and synchronised with the US quota monitoring authority through real-time connection online. The quota itself was distributed on a first-come-first-served basis although limited quota-holding was allowed for a few large manufacturers based on their previous performance. There was certainly no quota hoarding and black-marketing after quota validity was reduced to three days from issue. This must be acknowledged this as one of the rare examples of successful regulatory reform among the Nepalese industrial sectors.

Such efficiency was yet to be seen in the Land Customs Station (LCS) in Birganj which was the most frequently used point of customs for consignments being sent to Kolkata port. While it usually took Arya-Nepal two hours of a clerk's time to get each clearance from GAN, customs-clearance in Birganj LCS took at least half a day. The LCSs were extremely political places and it was said that any civil appointment in customs was only possible for those who offered to pay heavy bribes to higher officials. The processing industry that dealt with customs clearance was also heavily regulated and accessible only to a small clique of agents. Most of the customs/consignment processing agencies were Marwaris, Biharis and other Indian migrants, who had to maintain very close relations with the civil bureaucrats on both sides of the border in addition to mastering a complex

network among the transport operators on the route. Once customs was cleared, consignments were transferred to Indian trucks which offloaded them at Kolkata port from where they left for the final destinations in the US via the Pacific (see Section 4 of Chapter 4 for details).

Such a combination of land and sea routes was applicable only to the manufacturers of homogenous garments. Rongoli and Swakan-Chhemu produced higher value products in smaller quantities which were transported by air, so their interface was largely with the airport customs office. This was staffed exclusively by Bahun-Chhetris during my fieldwork and was seen as one of the more lucrative postings for a civil servant. Rongoli nurtured social relations with the customs officials; Gaj used to look after customs issues himself since as early as the 1980s until 1993, when the customs building itself was extended and refurbished, and procedures radically restructured and automated. He then delegated it to Uttam, a Bahun from the Terai and a former government civil servant in the DOI. Uttam had detailed knowledge of government bureaucratic procedures and the power politics within the Customs office. Rongoli's exports were non-quota items, but Uttam still had to produce a multitude of documentation including the certificate of origin from GAN, certificate of registration for Rongoli from the DOI, tax clearance status, a bank statement with adequate funds, the registration certificate of its buyer in the USA and a copy of the purchase order. In addition to these, Uttam also had to offer a cordial – or almost sycophantic – *namaste* to the Director and pass on Gaj's personal regards before he proceeded with business. When the customs issues become complicated, Gaj paid a call on the Director in person for more detailed discussions. Rongoli was among very few exporters who had such privileged service and personalised access to the customs officials that they hardly faced any issues to complain about. Swakan-Chhemu did not have such privileged access to the customs office. Instead, they relied on their agent, Speed Logistics Services, for all the paperwork and administrative follow ups required for customs clearance. Swakan-Chhemu was quick to point out that it was a Bahun-Chhetri-Marwari clique in the civil bureaucracy which worked against other castes and ethnicities. Tej, who oversaw the work of Speed Logistics Services for Swakan-Chhemu, spoke fluent Nepali but with a strong Newar accent which was often ridiculed by non-Newars. During his telephone conversations with the customs office or DOI, he would often be heard repeating the sentences twice or thrice because the other party could not understand him well. Often, conversations would turn into arguments about how inconsistent and irrational some of the bureaucratic procedures were. It was

not so surprising, then, that Swakan-Chhemu was increasingly dependent on Speed Services for its representation in government offices, not only on customs and duty drawback issues but a wide range of other matters such as tax regulations and finance.

My observation of how manufacturers responded to State directives on visa, customs clearance and transportation showed it to be not very different from how they responded to State policies on import and export subsidies. How businessmen coped with imperfect markets and policies was not a strictly rational issue but an outcome of complex negotiations that called on a wide array of economic and social phenomena. In the following subsections, I will give an account of the philanthropic practices followed in the factories to further develop my argument on culture-economy embeddedness in industrial organisation.

### **3c. Religious rituals and philanthropy in the factories**

Be it towards the old causes of religious rituals or towards the new causes of political and social activism, philanthropy is a useful tool for studying how social and cultural values underpin business values. Clegg et al (1990) claim that post-Confucian value clusters underpinned the economic culture of East Asian societies. Timberg (1978), Singer (1972), Zivetz (1992) and Rudner (1994) have given examples of how social and cultural values, networks and rituals are embedded and interwoven into the differentiated business paths that different social groups pursue. Parry (1999) and Ong (1997) have demonstrated how a hybrid ritual order has emerged among the working class which works to resist the intensifying capitalist control on modern factory floors in India and Malaysia. Khan (1995) and Toye (1995) have extended this notion of society-business embeddedness to argue that State policies on business enterprises and the entrepreneurs' relations with the State will depend on whether or not the broader societies are receptive to the core values or essence of capitalism. Such a social reception of values might be reflected not only in the way business ventures operate or the way the State directs them, but also in purely social and cultural exchanges such as festivities and other socialising rituals.

In this section, I will show that strictly cultural activities performed in the garment factories are also a function of the broader social and economic characteristics of the businessmen who perform them. As we will see from the cases I discuss at length, the world of philanthropy goes far beyond charity contributions and public relations stunts.

At times, the otherwise modern factories undertook rituals to invoke the gods for better spiritual protection in coping with market and policy uncertainties; at other times rituals helped them strengthen their business networks and offered platforms on which factory owners validated their claims of cultural knowledge and skills as they capitalised on them.

Almost all factories in Kathmandu observed rituals that paid tribute to deities associated with wealth and craftsmanship. Hindu festivals were often also public holidays (e.g., *Dashain* and *Tihar*), but not many non-Hindu festivals merited such privilege (e.g., *Eid* for Muslims, *Matsyendranath Puja* for the Newars from Patan, and *Bisket Jatra* for the Newars from Bhaktapur). In addition to popular festivals, garment factories also observed rituals that celebrated Vishwokarma (god of craftsmanship), Bhimsen (god of business prosperity) and Laxmi (goddess of wealth). Among my case studies, the Patan Newars of Swakan-Chhemu celebrated festivals that were not recognised by the State, and so the Swakan-Chhemu workers did not get days off for them. Instead, the Muslim, Christian and Hindu workers in the factory were all offered an elaborate feast which they shared in the factory compound. A suitable celebration was made to mark the occasion when the hundred foot tall chariot of Matsyendranath completed its circumambulation of the town of Patan. On the day of *Tsho Puja*, Buddhist monks were invited for the recital of holy hymns in the factory. However, the factory carried on its operations with a lesser or greater degree of normalcy when Muslim workers went home to Terai to celebrate *Eid*, or the Sarki managers and supervisors – most of whom were newly converted Christians – took days off to celebrate Christmas.

In addition to religious rituals that offered the workers rare occasions to socialise and celebrate, Swakan-Chhemu also undertook a number of non-religious philanthropic activities. For example, it patronised a women weavers' co-operative by regularly buying its raw cotton fabrics for its production even when it was higher in price and lower in quality. Swakan-Chhemu's buyer, John Paso, had made a legal provision that he would donate five per cent of his profits from Swakan-Chhemu garments to the global Free Tibet campaign. Swakan-Chhemu periodically but not regularly matched the buyer's contribution to offer charity to Tibetan monasteries and refugee centres in Nepal and Dharmashala. As seen from the time and money devoted, Tibeto-Buddhist philanthropy and regional festivals were much more important to Swakan-Chhemu than their observance of the major State festivals like *Dashain*, during which festival, the

Shakyas either continued factory operations as usual or took a few days off to travel or relax with family but without paying attention to the festival itself.

Rongoli's festivals coincided more with the State festivals than Swakan-Chhemu's. For example, during *Dashain*, Gaj, Sabitri and other key Rongoli officials visited and received *tika* from government officials and prominent Hindu businessmen. Special care was taken that *tika* was received from the officials of the customs office, the DOI, the President of GAN, etc. Workers were given *Dashain* allowances and *peshkis* (advances). Gaj and Sabitri also observed Marwari festivals such as *Chhath*, but unlike the mainstream Nepali festivals like *Dashain*, *Chhath* was celebrated purely as a family event to which colleagues and business alliances were not invited. Gaj was deeply religious, and did not leave home in the morning without performing a lengthy worship at his family shrine. There were no shrines in the factory itself, which indicates that spiritual undertakings are personal for Gaj and Sabitri. Contrarily, rituals and festivals such as *Dashain tika* were public functions and strategically business-oriented. Beyond religion, other philanthropic activities in Rongoli revolved around the local environment. For example, Gaj not only paid for but also managed the actual task of cobbling the local streets, fixed the local sewerage system, renovated a local Ganesh shrine and also contributed seed money for their first ventures for some of the young people in the neighbourhood. In addition, Gaj was an elected president of the Rauniyar Samaj, a national association of all Rauniyars in Nepal, which among others provided financial and social support to needy Rauniyars.

Contrary to the hypothesis that Taylorism will bring deculturation, Arya-Nepal3 observed religious factory rituals more elaborately than any of the specialised garment manufacturers. For example, Arya-Nepal3 made several efforts to maintain ritual purity of food (i.e. *sattvik ahaar*) on its factory floors, cafeteria and workers' lodging quarters. Although Nepali Bahun-Chhetris do eat goat meat, eggs, mushrooms and spices such as onions and garlic, Arya-Nepal3 formally prohibited consumption of such *tamasik* (ritually impure) food on the factory premises so as not to offend the Jains in Arya-India who were stricter pursuers of *sattvik ahaar* or purity of food. While the Nepali managers and workers were slightly critical of such stringent norms, the Punjabi managers thought *sattvik ahaar* to be of even greater importance in the context of the *agghorpanthi* sect of

Pashupatinath<sup>109</sup> dominant in Nepal which approved consumption of meat, eggs and spices. Another of its efforts to please the Jains was its adherence to *vastu* (North Indian architectural harmony) in all its constructions. Under the supervision of a priest sent from Ludhiana, Arya-Nepal observed a *vastu* and *navagraha puja* (prayer of construction and the planets) at the opening of its new production plant. The subtle negotiations that took place during this ritual, both between the Indian and Nepali owners as well as among various 'high' and 'low' Nepali Hindu castes reflected the broader social hierarchy that was ever-present on the factory floors. However, strictly ritualistic issues were substantially moderated in recognition of the fact that the factory rituals were more a means to harmony among the workers and managers on the factory floors than purely religious events. This was reflected recurrently through considerations as to whether or not a Jain ritual of *vastu puja* could be combined with the Nepali ritual of *navagraha puja*; whether a priest could also be a *co-jajman* (celebrant or patron); whether 'low' castes/ethnicities, widows and sterile women could be part of the ritual hand-in-hand with higher castes, especially if they were professional grades of workers and managers. Such contesting of the hegemonic ritual order seemed to open up avenues for ushering in progressivism within the hybrid cultural order evolving on the factory shop floors.

#### 4. Conclusion

Markets are not only transactional spaces, but also social and cultural. The institutions of the market form a complex web that contains culture, society, politics and economic activity simultaneously. Markets then are bound to be divergent across societies. The same can be said about the State policies and regulations that govern the market: that they are not only directive forces but also the recipients of more nuanced social and cultural norms and negotiations. In this chapter, I have shown how, beyond the forces of State policies and markets, industrial organisation is embedded into the broader social organisation – to a lesser degree in culturally anonymising factories (Arya-Nepal3) and to a greater degree in culturally specialising factories (Rongoli and Swakan-Chhemu). In fact, the varying degree of such melding of culture, transactional rationality and State directives into the making of industrial organisation, gives rise to what Whitley (1999) called 'divergent capitalism' across societies. He is right in pointing out the limitations

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<sup>109</sup> This is one of the important Hindu sects which follows Shiva who is also known as *agghor baba* or the non-follower of the rules of ritual purity. Under this sect, none of the Hindu rituals of purity and pollution are to be observed. Since Shiva is believed to be a dweller of the high Himalayas, Nepalis' liberal attitude towards ritual purity and pollution was regarded by the Indians to be the results of the *agghorpanthi* principles.

of the instrumental rationality assumption of both the market and the State, and thus, the need to contextualise rationality. In the case of the garment industry in Nepal where two different types of industrial subcultures exist side by side, the question of contextualisation seems to have as much to do with industrial demands as with the state of social organisation and businessmen's interface with the State. In other words, how, when and where State regulations and market rationalities prevail, and where they are replaced by vernacular social considerations, are questions that have to be problematised in the context of both endogenous (culture and society) and exogenous (international market) factors.

This chapter is largely a case study on Whitley's comparative-business-systems approach in studying modern capitalism or industrial organisation. I have tried to capture the divergence in capitalism on the three important fronts of internal factory organisation, organisation of the supply chain and interface with the State. On each of these levels, I have examined how and why organising principles differ, first, between manufacturers of homogenous and specialised garments, and second, between manufacturers from different caste and ethnic origins. Temporally, I have tried to take into consideration the factors at play during the old competition (market liberalisation and regular industrial challenges) and the new (MFA expiration and the Maoist insurgency). The divergence from the status-quo seems to have emerged out of a series of adaptive efforts in response to shifting opportunities and constraints. For example, a mass manufacturer like Arya-Nepal<sup>3</sup> which emerged out of the somewhat orchestrated policy manoeuvres related to the MFA would understandably be dominated by procedural adaptations. The MFA-led market integration also prompted Nepali mass manufacturers to step out of their comfortable domains of ethnicity and kin-based internal organisation such as the *juwadi* system, and mechanise/anonymise their production process according to the principles of Taylorism. The mass manufacturers also formalised their supply chains and adhered to international norms of corporate governance but their departure from traditional norms was not always reiterated in their social activities. For example, instead of leaving behind their cultures and religious rituals, many mass manufacturers intensified their observance of religious rituals in the factories as their commercial futures looked more and more uncertain. On many occasions, the mass manufacturers seemed to compartmentalise their industrial and cultural practices such that a whole series of pragmatic rationalisation of production went hand in hand with particular adherence to less rational cultural norms. For instance, Arya-Nepal's efforts at social capital building

with its financiers was based on religious rituals and caste identities and its dealings in State policies and procedures including such items as duty drawback systems, taxation, customs-clearing, shipping, etc acknowledged and reinforced a clear ethnic preference. Although Arya-Nepal was a case supporting the theory of homogenisation of production and labour, as prophesied by the proponents of American capitalism (Chandler, 1977 and Hollingsworth, 1997), it is not in any way free from the socio-cultural order that surrounds it.

Swakan-Chhemu and Rongoli also adapted to market changes, as is evident in the structural changes seen in their structures and products. From retailing souvenir garments to local tourists, they have now moved to large-scale manufacturing and export of specialised garments to worldwide markets. The only difference in the way they adapted to the market changes was that Arya-Nepal's adaptation was procedural while Swakan-Chhemu and Rongoli's were product-based. Their organisational changes also reflected the difference in their adaptation. For example, the internal organisation in both Rongoli and Swakan-Chhemu involved the old *juwadi* and caste-based systems; the supply chain was tightly controlled through character-specific trust rather than institutionalised trust that ensured competitive norms; and ownership structures put higher priority on the owners' assertion of authority over principles of corporate governance. Where Rongoli and Swakan-Chhemu varied was in the nature of their product and their use of the culture-based identities and networks that underpinned it.

The Buddhist Newars have historically been marginalised since their defeat at the hands of the Hindu Bahun-Chhetris, and their position in the modern State is that of a 'displaced Nawab of Lucknow after the Loot,' as K.P. Malla (1992: 24) put it. Not surprisingly then, Swakan-Chhemu dealt with the State as indirectly as possible and had lately come to employ a Bahun-Chhetri firm to represent it in all interactions with the State. The Shakyas did not take part in State festivities in the same way as the Arya-Nepal or Rongoli owners, and the old institutions of receiving *Dashain tika* and bearing loyalty to State officials was no longer relevant for the Shakyas. Instead, they built vocational alliances with other marginalised castes and ethnicities, e.g., the Dalits, Tibetan refugees and convert Christians, and nurtured a grudging suspicion of the Bahun-Chhetris and Indians. Their dealings with the institutions of popular political activism – which acted as a buffer zone between the State and society or formal policy and popular

aspirations – reflected the fact that they seemed to be caught between the capitalist pursuit of interests and ethical resistance to hegemony (see Chapter 9).

Such a conundrum did not exist for Rongoli whose owners belonged to the caste/ethnicity which the State had credited with the construction of the first industrial infrastructure in Nepal. They had excellent working relations with the State, as reflected in their ability to persuade the DOI to designate a special officer to evaluate their fabric consumption, and allow them personalised access to the customs office. Such well nurtured social capital was reinforced among others by the fact that the festivals and rituals that Rongoli celebrated were the ones acknowledged and practised by the State. For example, the receiving of *Dashain tika* from the DOI and customs officials as well as other State officials both reflected and contributed to its comfortable social standing with the State mechanism. The nature of its product allowed it to pursue caste/ethnicity-based labour organisation which was more organic and hedged from the risks related to new labour unionism. Rongoli did not seek support from political activists for its organisational and procedural problems; its engagements with these institutions were purely charitable and non-partisan.

Some social scientists have optimistically expressed their faith in the regenerative capacity of traditional institutions to counteract the effects of economic decline. Trust is one such institution which is critical in explaining the organisation of the garment industry. Zucker (1986) and Putnam (1993) have argued that societies might start out with informal and personalised trust that lubricates business transactions and alliance-building, but that such forms of trust will be replaced by institution-based trust and legally enforceable transactions as the societies become more industrialised. Others have taken a more cautious approach, re-emphasising that the kind of trust that will be deemed useful in the market will depend on whether or not such trust patterns fulfil market demand for production (Zivetz, 1992). A majority of trust scholars have chosen to deconstruct trust into various types and contexts (Moore, 1999; Timberg, 1978; Rudner, 1984; Zivetz, 1992). As Harriss (2002b) has argued, how fast new or institutionalised trust will grow will largely depend on how strong the old or selective trust is. Rudner has shown with regard to the Nattukottai Chettiar that selective trust can be the basis of great business enterprises. This has been possible with a unique mix of strong old trust and weak enforcement capacities of new trust. The same can be said to be true of the garment factory owners in Nepal. The new trust deriving from State

policies and business regulations tends to be much weaker given the fact that the old institutions of religion, caste, ethnicity and kinship seem to influence the factory owners all the time. What is true, nevertheless, is that the old institutions are not static, but are continuously changing with every new dimension that is being added to the industrial scene – be it shrinking and growing markets or changing political rules of the game.

## Chapter 9: Institutions and politics

In addition to the reliance on cultural knowledge, skills, networks (as shown in Chapter 7) and organisational preferences (as shown in Chapter 8), the modern entrepreneurial set up is also characterised by localisation of politics. This has to do with the grounding of formal State policies and politics in the informal world of grassroots activities, which offers a platform on which the policies and politics will actually be interpreted. How grassroots-level norms facilitate collective action is a topic that has been partially addressed by new social capital theorists like Putnam (1993). However, the problem with Putnam's version of social capital is that he approached it in a formalist way to equate social capital to social cohesiveness measured from the presence of horizontal and apolitical associations such as choirs and sports clubs. I disagree with this view; and instead argue that social capital and politics are not stand alone topics but individual threads inextricably interwoven in the fabrics of economic and social structures. Earlier theorisers of social capital like Bourdieu (1986) and Coleman (1984) actually reinforce this view. In both their discourses, social capital refers to subjective relationships among people, which are at times drawn on to influence access to resources, but which are not entirely fungible. As Harriss (2002a: 254) correctly showcased, using Kerala as an example, social capital not only includes voluntary associations such as choirs and sports teams, but also politically charged class and mass organisations operating at State and grassroots levels. In this, social capital might be a public good, but it relates differently to individuals within a given society, and hence, cannot be added up into a 'total score' for a society as a whole.

I examine the relevance of power and politics within the discourse of social capital and its role in how economy and society function in Nepal. Drawing from my record keeping of the chain of grassroots level events that occurred in urban factories as part of the Maoist movement, I discuss the nature and behaviour of two mass organisations through which Maoist politics entered the world of industrial organisation. This is especially relevant to how businessmen handle the contradictory experiences of economic coercion of labour unions and political manipulation of factory ownership. Such a complex mix is explained to a large extent by the history of the evolution of labour unions and business associations amidst competing claims of political, labour and industrial interests. The arrival of new power holders (the Maoists) is another important

dimension that must be studied in order to understand how the *modus operandi* of these institutions underwent incremental power alterations at times.

### **1. The Maoists and the businessmen**

The Maoist insurgency is not a new phenomenon for Nepal and it has regularly featured in all three of my case study chapters (Chapters 4, 5 and 6). What does deserve a special mention is the fact that while the Maoist movement ubiquitously impacted all fronts of political and social structures, business enterprises were especially hard hit because of their capital-based functions. The overall business environment deteriorated drastically as the insurgency escalated, yet both the State and the rebels targeted business houses as an easy source of funding for their increasing expenditures. As early as May 2000, factories in Kathmandu had begun to receive letters from the Maoists asking for donations. As I discussed in Chapter 2, the Maoists intensified their networks in urban areas following the second national convention in February 2001, and the adoption of the Prachanda Path, which specifically called for taking the war from the peripheries to the centre. The February Convention also renewed its denouncement of the so-called 'feudal' and 'imperial' elements within Nepali society, and especially targeted the Bahun-Chhetri entrepreneurs for supposedly having better access to State resources than their lower caste compatriots. The Marwari entrepreneurs were also targeted for supposedly having deeper cultural ties with India than Nepal. The 'indigenous' business communities like the Newars and other Janajatis received softer treatment.

I have already discussed in Chapter 2 how Prime Minister Sher Bahadur Deuba brokered a truce with the Maoists which lasted from July to November 2001. Although the government had been firm, and at times ruthless, in cracking down on Maoist activities on factory shop floors in Kathmandu, the State significantly softened its treatment of the Maoists during the truce. Treating this as a window of opportunity, the Maoists substantially strengthened their urban networks and intensified their labour proselytisation and capital extortion activities among urban factories. Increasingly, the factories in Kathmandu began to receive letters from the Maoists that stated the precise figures of 'donations' expected from each, which the Maoist cadre clarified 'were based on the factory income statements of individual factories'. Factories with a portfolio of five million rupees had to pay a 'donation' of ten to fifty thousand rupees. The Maoists used official signatures and letterheads to legitimise the letters, and their writings were often filled with communist jargon like 'the people's war', 'feudal exploitation,

oppression, discrimination, corruption' and 'poverty and deprivation exerted by the anti-nationalists and the imperialists.' Although the factories had been aware of the expectations placed on them for political donations, it shocked them that this time they were increasingly made subject to a caste-based treatment. For example, the factories owned by the so-called feudal Hindu high castes and the 'Indian imperialists' including the Marwaris, had to pay more than their Janajati and lower caste counterparts. These so called feudal and Indian castes and ethnicities were treated especially harshly and were allowed no negotiations whatsoever, while their Janajati counterparts were often successful in significantly reducing the amounts demanded by counter-proselytising the Maoists on the importance of indigenous entrepreneurship. The Maoist representatives that the factory owners often met were almost always Janajatis.

One of the most effective ways that the Maoists materialised their financial extortion from the business houses was through labour unionism. Their infiltration into the garment labour force following the Maoist adaptation of the Prachanda Path, for example, had essentially left it incapacitated. The Prachanda Path echoed the slogan, 'Let us consolidate and expand our base areas and move forward towards a people's government in the centre' (CPN Maoist in Sharma, 2004: 53). One aspect of their mobilisation towards the centre, was their raising of the flags of patriotism (by voicing an anti-India rhetoric) and communism (by imposing anti-capitalist demands on behalf of the workers). On both counts, the Maoists targeted labour-intensive and ethnically diverse industries in Kathmandu, among which the garment industry, which enjoyed strong Indian investment and labour participation, was an attractive target. The Maoists covertly infiltrated the industrial labour unions in Kathmandu to displace the influence of conventional labour unions led by the Nepali Congress and the moderate United Marxist Leninist Party (UML).

In one sense, the Indian and Nepali workers had historically coexisted in the garment industry, if not in total harmony, at least without disrupting factory operations. But the fact that the Madheshi workers from the Nepal-India border had privileged access to the industry<sup>110</sup> and the benefits that accrued meant that there had long been a simmering discontent between the Madheshi and hill workers. As the Maoists spelled out anti-Indian slogans, they also fuelled ethnic hostilities. The hill workers in the garment factories were particularly bitter about the way they had been treated as a less preferred

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<sup>110</sup> Except in rare case like Arya-Nepal3 and Rongoli.

labour force within the industry for so many years, and about the discriminatory ways in which the Indian managers and factory owners had treated them. The higher level management in most of the Marwari-owned factories was staffed either by Indians or Madheshis who were less sensitive to hill culture and customs. During a bizarre political scandal about whether or not a Bollywood actor made derogatory remarks against Nepal, which resulted in the death of a man when the police tried to dismiss a demonstration of street agitators, the hill workers in garment factories where they had the majority, spontaneously confronted their Madheshi co-workers. Such strange incidents were early indicators that ethnic identities and a sense of groupism were deeply rooted among the people, and that, if strategised, could be manipulated for political purposes.

The problem of business extortions became worse during and after the months of truce (July–November, 2001). In the readymade garment industry, more than two thirds of the factories owned by Bahun-Chhetris and Marwaris had to suspend their operations owing to the worsening extortions. A Marwari businessman described his experience with the Maoists as particularly intimidating:

They sent me a letter that I should not create obstacles in the work of the labour union leader in the factory. I agreed. The (union leader) guy had been working in my factory for about a year. They demanded that the labour wages needed to be doubled. I could not do that, but I increased my labour welfare fund, and spent a lot of money raising overtime wages, adding health facilities in the factory, etc.

After a few months with no production orders, I had to let go some of my workers who had been on temporary contracts. But still the labour union leader guy came and demanded that each laid off worker must be paid full severance as if they were permanent workers. This was not possible. And then I started getting telephone calls from the Maoists threatening to take me to their court. I had no choice. I paid them as much as I could. It cost me a lot.

On top of everything else, the Maoists sent me another letter demanding one *lakh* rupees from me. How can I pay such a big ransom? And I still do not have any production order so the factory is not working. This is a desperate situation. What I have now done is that I have fired all workers except the very labour union leader. He wants me to fire him, but I am not going to. He will come to work every day, look at the empty factory, and realise what he has done to the factory, to his fellow workers, and to himself. He will have to see.

In contrast, a handful of garment factories owned by Janajatis were still running smoothly, and although they made extortion payments, they were not harassed as badly as their Bahun-Chhetri and Marwari counterparts and the ‘donation rate’ they were given was significantly lower than those imposed on the others. One of the Newar owners of the garment factory gave the following account of his contacts with the Maoists:

I got the Maoist letter, and they followed up with a phone call. I asked to meet them, and they called me to one of the teashops in the community. I was not at all frightened nor were they harsh, not visibly, at least. Two Magar-looking young fellows turned up. They spoke in English from time to time! I said to them, this is unfair; it is already so difficult to compete with the Indians in this business. There are hardly any locals, and they can see it for themselves. And I hardly have any labour problem in my factory – they know it themselves. They have come and talked with my workers and my workers have told them they are not exploited, they get paid higher than anybody else working in garment industry. If the Maoists are fighting for the *sarvahara* (classless) workers and against the Bahun oppression, they better realise that they must make friends (*mile juyema*) with people like us. I told them this right to their face. I told them, they should tell me right to my face, if they see any injustice, any corruption in my factory.

After the Maoist extortionism wreaked havoc in the industry, the Garment Association of Nepal (GAN) was called in to mediate between the entrepreneurs and the Maoists. How such a mediation would be achieved was a matter of vociferous debate among GAN members, but three clear preferences emerged: the first was to retain the *status quo* and continue dealing with the Maoists individually, which was what the Janajati businessmen’s preferred option ; second was for GAN to agree with the Maoists on a bulk amount which could later be shared among the individual members, which was the preference of liberal Bahun-Chhetris and the ‘old’ Marwari entrepreneurs; and third, was to take a hard position and lobby instead with the government for tightened security in the factories, which was the choice of the conservative Bahun-Chhetris and the ‘new’ Marwari entrepreneurs.

Among the Bahun-Chhetris, the greater elites who had enjoyed State protection during the Panchayat regime were more conservative and maintained their hard line against the Maoists, but the lesser elites who had received only marginal benefits from the old State were more open-minded. Staunchly against cooperating with the Maoists were the ‘new’ Marwaris, who had either only newly migrated to Nepal or still had their bases in India, and hence still had the option of going back if the situation deteriorated too much. The

‘old’ Marwaris, who had lived in Nepal for generations, were less inclined to leave, and they – just like those from other Nepali ethnicities – openly came out in favour of brokering a peaceful deal with the Maoists.

Some civil society leaders were also called in to mediate the dialogue between GAN and the Maoists, and the talks brought mixed results: The ‘old’ Marwaris and the liberal Bahun-Chhetris agreed on a collective sum to be paid by GAN to the Maoists, which would be shared among individual GAN members afterwards. The Janajatis dropped out of the dialogue and went on to negotiate individually. The conservative Bahun-Chhetris and the ‘new’ Marwaris refused to participate in any dialogue. Soon after this deal, the Maoists planted a socket bomb in one of the garment factories owned by a new Marwari who was seen as being especially obstructive in the GAN-Maoist dialogue. Following this incident, and also owing to the fact that business operations in Nepal were already making huge losses, a large number of new Marwari entrepreneurs left Nepal to return to India and elsewhere.

## **2. The Garment Association of Nepal (GAN) in international trade politics**

The Garment Association of Nepal (GAN) was established with less than thirty business members in 1987 but by 1995 membership had grown to over a thousand. The size of GAN can be seen as a reflection of the size of the garment industry, which in turn appears to be a reflection of the industrial policies that governed the industry at the time. In the 1980s and 1990s, a large number of enterprises functioned as informal businesses, which did not bother joining business associations such as GAN. It was only with the enactment of the 1992 industrial policy that enterprises began to take steps towards presenting themselves on formal platforms for business networking. With it, GAN ceased to be a club restricted to the local business elites and opened up to non-elite businessmen from all castes and classes.

Prior to this, the 1987 industrial policy had imposed a blanket prohibition on foreign investment in small-scale enterprises and had allowed only up to fifty per cent foreign investment in medium-scale enterprises. Even in large-scale enterprises, investors had to undergo lengthy and complicated bureaucratic procedures before being granted a permit. Foreign investors, therefore, often took business partners from the local business elites who would allow the use of their social and political connections to navigate through the bureaucratic maze involved, not only in obtaining permits to start the business, but also

throughout its registration and operations. The local business partners, however, would have little managerial role in the day-to-day operations, nor would they have a high capital stake in the business and so were often referred to as sleeping partners. As there were only so many local business elites capable of and willing to engage in a business partnership with foreigners, especially in the relatively untested garment industry, the number of registered garment factories was also small.

The local non-elites also ran garment factories, often smaller ones, but they could not afford to register them formally. Nor did they see much value in formal registration especially given that the financial markets were so rudimentary that they could not rely on raising bank credits without personal connections in any case. The term 'fabrication' among the garment entrepreneurs, for example, referred to factories that were not registered but had a fully functioning production schedule. An important drawback for the 'fabricators', however, was that they could not enter the international market since they had no recourse to customs permits or the MFA quotas that were necessary for them to export their production to the United States. Instead, they worked as subcontractors to the registered factories who would resell the final products after some rent-seeking. Needless to say, the fabricators could not become members of GAN either.

Unregistered factories aside, not all registered factories necessarily sought membership of GAN. For example, GAN raised less than five per cent of its total income from membership dues until 1990; the remaining costs being met by government grants and philanthropic contributions from a few select members of the business elite. As the 1992 industrial policy went on to restructure government procedures on enterprise supervision (see Section 3 of Chapter 2 for details): one important change introduced was that the DOI delegated to GAN the task of verifying and managing the complicated job of MFA quota distribution. In return, GAN was allowed to keep one percent of the quota amount for its capacity building. GAN did build its capacity significantly from this income: It constructed an office building within its premises where the DOI representatives responsible for approval of MFA quotas could be stationed. It also developed an automated e-tracking system that could keep record total exports, quota balance and government revenue earned from the industry. Both its physical proximity to the DOI as well as its access to detailed data on industrial revenues enabled it to emerge as an indispensable advocacy group on garment-related issues. Increasingly, garment factories began to take membership and be more involved in their Association. As business

registration became easier after 1992, GAN's membership dues increased by over sixty per cent.

Although the garment industry expanded considerably in the 1980s and 1990s, the dominance of a few select castes and ethnicities remained intact in this industry. In a small survey (of 36) that I carried out among a random sample of garment factories, I found that 54 per cent were owned by Bahun-Chhetris, 30 per cent by Marwaris, 11 per cent by Newars and only 5 per cent by other castes and ethnicities. The pattern one sees in the distribution of key positions within GAN echoes the broader caste/ethnic composition of the industry. Within the GAN Executive Committee (of 21), 50 per cent of the Committee members were Bahun-Chhetris, 29 per cent Marwaris and a further 9 per cent Newars. There was only one Janajati member of the GAN Executive Committee. Most of the GAN members noted, without being prompted, that the majority of past and present Presidents of GAN were either Bahun-Chhetris or Marwaris with just two exceptions of Newars. On who would be the most suitable candidate for GAN presidency, one of the members said:

We need such kind of man to lead the GAN, who has access to the 'top level' [of government]. I think Bahun-Chhetris are needed for this kind of leadership. We've had a number of them who have led GAN well. They could call a minister and fix an appointment within one day. Let's just compare GAN with the Carpet Association – it takes them [the Carpet Association] weeks just to get an appointment, and then they cannot put their case convincingly when they do see Ministers. We [GAN] can see the Ministers when we want. That is why the garment industry is doing as good as it is. .... On the other hand, it is not enough that the GAN President knows Ministers. So what if he knows all the Ministers if he is not willing to use that connection for the Association, to bring facilities for all of us, to bail us out at the time of crisis. The President should be willing to use his connection not only for his personal needs but for the entire Association.

Owing to the tasks being added to GAN's portfolio every year, the Association promulgated new sets of guiding principles and policies in 1995. Page 2 of GAN's new guiding principles stated GAN objectives as, 'protection of the interests of the garment manufacturers; [to] support the industry through networking, facilitation, and information sharing among the manufacturers and with buyers; and lobbying with the Nepali government and other agents on garment-related issues as and when needs arise.' Given the rapidity with which GAN expanded its scope in the late 1990s, it was only to be

anticipated that the members' expectations of the body would far exceed its officially stated objectives. Of these, I will discuss two specific cases where GAN led lobbying and negotiations with the State as well as international policymakers on behalf of its members. The first was on the design of policy incentives for garment exporters that encouraged a graduation from the MFA quotas; the second was regarding lobbying in the United States Senate for preferential treatment of Nepalese garments.

## **2a. Policy incentives for ending dependence on MFA quotas**

Because the garment industry was seen to be excessively dependent on the MFA quota, the government introduced monetary incentives in the year 2000 for entrepreneurs who either exported non-quota garment items or exported to non-quota (i.e., non-US) markets. It was proposed that industrialists would receive a cash-back worth 0.1 per cent of total sales qualifying under either of the two provisions. GAN was tasked with designing and administering this incentive programme. In 2000 there were six factories which exported non-quota garments, including a wide range of men's and women's cotton and linen jackets (quota items #353/653/354/654), women's dresses (#836), towels (#362) and bed linen (#363). Most of the owners of these factories were Bahun-Chhetris and Marwaris. In contrast, there were only three factories that exported to the non-quota markets of the United Kingdom, Europe and Japan. The owners of two of the three factories were Newars. GAN awarded cash incentives to exporters of both non-quota items and non-quota markets in the first year (2000) but from 2001 onwards, it scrapped the incentives for exporters to non-quota markets whilst continuing them for non-quota garment items.

With only three entrepreneurs (and two of them Newars) victimised by such a policy change, and the fact that no transparent process was adopted to verify GAN's data analysis and subsequent decisions, it was inevitable that the two Newar entrepreneurs looked upon this as ethnicity-based discrimination. One of them had only recently made a handsome donation to GAN with the money he had earned through the incentive, which he thought 'went into shit' as GAN scrapped his benefits the very next year. As I continued to do my fieldwork in GAN, both Newar exporters requested me to raise the issue one more time with the GAN General Secretary. They said, 'this [was] precisely how the Brahmus (Newar for Bahun) have long made fools of the Newars'.

When I asked the GAN Secretary, a Bahun manufacturer of quota items for the quota market, he confirmed that export of non-quota items was gradually growing whilst

exports to non-quota markets remained static despite the incentives granted. He also insisted that both incentives had been adopted on a trial basis, and since the government did not increase its funds for this incentive as had been earlier promised, GAN had had to discard one of them. He reacted negatively when I asked whether it did not make more sense to reduce the amount attached to each incentive; or even consider the removal of the incentive on non-quota items precisely because these were already on a rising trend and were a better candidate for weaning off of the subsidy:

‘There are various reasons for this [scrapping the non-quota market subsidy while retaining the non-quota item subsidies]. First, there are only three exporters to the non-quota markets and they are doing much better than average exporters even without the incentive. And second, the business know-how and the business networks needed for this kind of business is so tightly controlled by one or two entrepreneurs that the incentive alone would not enable new entrepreneurs to penetrate this enclosed territory.’

I was told that the incentive for exporters to non-quota markets might be reinstated if the factory owners concerned could persuade the government to raise the budget allocations. Otherwise, GAN might be able to afford this only after finishing the construction of its new building, which offered the possibility of increased revenue through renting out part of the building. This, of course, was not sufficient an assurance for the Newar entrepreneurs who continued to feel victimised, not only over this particular incident but also a series of other incidents similar to this. One example given was that while Marwaris easily got special treatment for import duty exemption, the Newar factories were refused such concessions even when equally entitled (see Section 3a of Chapter 8 detailed discussions on government discrimination between Newars and Bahun-Chhetris on the duty drawback system).

The policy inconsistencies as well as the bickering that followed between GAN and the members of various castes and ethnicities, show that the issue of caste and ethnicity remain at the core of policy-making even though GAN has become more ethnically diversified over the last decade or so. The distinct caste undertones felt in the coercion and negotiation among GAN officials and members on interpretation and implementation of industrial policies reveal the extent to which business associations are influenced by the broader social and political hierarchies under which they operate.

## 2b. Lobbying in the American Senate for a preferential trade bill

The scheduled transition to the time of the MFA expiration invoked a heightened sense of uncertainty among garment factory owners. It did not help that the key garment market (the United States) showed no flexibility towards reducing the effects of the MFA expiration on Nepal. Elsewhere, in 2001, the United States signed two regional treaties on preferential trade with Africa and the Caribbean, which effectively compensated these two regions for their loss of MFA privileges. The African Growth and Opportunity Act (AGOA) and the Caribbean Basin Trade Partnership Act (CBTPA) formalised provisions that readymade garments manufactured in these two regions would be exempt from import duty in the United States as long as they could demonstrate adherence to rules of origin conditionalities. Given that the average American import duty on readymade garments is more or less equal to the average quota price, or somewhere in the range of 15-30 per cent of the merchandise value, the African and the Caribbean countries were now free of MFA-related fears (Birnbaum, 2000).

The Nepalese garment industry received no such concessions from the United States. Fully aware of the challenges on the horizon, the Nepali garment factory owners referred to their businesses as a *nibhna lageko diyo* (lamp soon to extinguish) and were keen to develop a strategy that might give them a safe transition into a post-MFA context. The GAN Executive Committee decided that one way forward might be lobbying in the United States for preferential treatment. The GAN General Assembly discussed the possibility of commissioning a technical study through a reputed research institution which might help it develop a business case for negotiations with international trade partners. This proposition did not go too far because several GAN members felt that a 'hands-on' approach of aggressive lobbying would do the job more effectively than adhering to an 'academic' approach of getting the facts right and documenting the case.<sup>111</sup> This might well have been prudent given the fact that Nepal's garment exports to the US comprised less than 0.1 per cent of the latter's total garment import, and US policymakers were hardly going to spend much time pondering such an insignificant

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<sup>111</sup> The garment industry had earlier suffered from some of the left-leaning research that occasionally overstated the case of labour abuse in the garment factories, sending wrong signals to potential buyers and consumers. The fact that Nepal received more interest from labour researchers than business researchers made GAN sceptical of the whole research agenda. Since GAN did not support research, there were no confirmed statistics on the size of labour employment in the garment industry. When they had to produce some statistics to back their policy lobbying, GAN simply glossed over the fact that it had only recently prevented the ILO from undertaking a labour census, to hastily claim that the industry employed over 100,000 workers which was reduced to 50,000 within a few months, and then subsequently increased to 75,000 a few weeks later.

market share. GAN then rightly assessed that they would have better access to US policymakers if the approach was made via diplomatic channels rather than purely commercial ones. The easiest link to the government was thought to be via its Party offices of which GAN had long been a grand patron.

The first step for GAN's lobbying was to take the ruling and opposing parties into its confidence. Ujwal Mainali, GAN General-Secretary, met with the economic advisers of the Nepali Congress (NC) as well as the Communist Party of Nepal – United Marxist-Leninist (UML). The so called economic advisers had graduate or masters training in economics, but little professional experience in economic issues since much of their career had revolved around party politics. These meetings did not entail technical presentations of the case nor formal briefing papers. They heard about the issue very informally, bringing up now and again cases of mutual co-operation between GAN and the parties, and promised to brief the Minister on the matter. With this assurance, GAN organised official delegations to the Ministry of Industries and Commerce (MOIC) as well as Ministry of Foreign Affairs (MOFA). A two-page briefing note was presented to both Ministries followed by formal and semi-technical discussions and based on this it was agreed that the government would send a delegation to the United States to meet policymakers there. The delegation left Nepal in April 2003, led by the Joint Secretary of MOFA and included the Joint Secretary of MOI, President and General Secretary of GAN, the Nepali Ambassador to the US and Nepal's honorary Trade Representative for the US. The delegation met with several US trade officials and legislators. Among others, the delegation was successful in bringing on board one of the US Senators, Diane Feinstein, to sponsor and table a preferential trade bill for Nepal in the US Senate.

Senator Diane Feinstein, a Democratic Representative from California, had connections with Nepal through her husband Richard Blum, an investment banker and philanthropist interested in Tibet and Tibetan Buddhism. In 1981, he had attempted, unsuccessfully, to climb Mount Everest from the Tibetan side with Sir Edmund Hillary. Thereafter, Blum founded the American Himalayan Foundation, which gave millions of dollars to build schools in Tibet and Nepal. Despite the fact that Blum's key interest in Nepal lay in Tibetan Buddhism, his current connections there were confined to the ruling Hindu elites. For example, he rarely visited the country after 1981, and most of his communications thereafter had been via Prabhakar Rana, the only Nepali Board Member of the American Himalayan Foundation, who was also managing the finances of King

Gyanendra. It was clear that any lobbying efforts from GAN would have to have the royal blessing for them to be effective.

For the proposed trade bill to become law, it had to be seconded by another Senator. In addition, the bill also had to be proposed and seconded into the US House of Congress by two Congressmen. With the limited connections Nepal had in the United States and the limited capacity of the Nepali Embassy there, the delegation had to have a realistic strategy as to how to retain momentum in this effort. Hence, it was thought best to appoint an American lobbyist to push the case further after the delegation returned to Nepal. The delegation met with two registered lobbyists with similar experiences on such issues, only to learn that the lobbying fees were too high for GAN to be able to afford. The next best alternative was to find someone who would be willing to take on the task on a voluntary basis. The obvious candidate was Mary Carroll, Nepal's honorary Trade Representative based in the US, who had regularly advised on a series of commercial issues. She was a founder of a Philadelphia-based business strategy company as well as a trustee of various charitable organisations including the YMCA of Philadelphia and the National Parks Mid-Atlantic Council. Her interests in Nepal had sprung from her trekking experience in the Nepalese high mountains in the 1970s. She returned to Nepal several times to trek and to lead high profile tours of businessmen and celebrities from the East Coast of the US. On the request of the Federation of the Nepalese Chambers of Commerce (FNCCI), she had also recently taken up the honorary designation of Nepal's Trade Representative in the US.

When GAN requested Mary to volunteer as a lobbyist to work for the proposed preferential trade bill, she expressed several concerns. First, such lobbying would entail massive mobilisation of resources and networks in Washington DC, necessitating a rapid turn-around from GAN on the decisions required for each of the tasks involved. Second, her involvement in Nepal was more philanthropic than business: she felt that the GAN delegation had an overly capitalist undertone, and it did not, in her opinion, articulate how a preferential trade bill would help the garment workers and the poor. This left her unconvincing about the cause's worth. Also, her primary contacts in Nepal had been trekking guides of Janajati origins from the remote villages in high mountains, whose charming personalities and cultures were what had drawn her to Nepal in the first place, and with whom she remained in touch to offer help when needed. Among others, she sponsored visas for many to come to the US, and when they came, she happily hosted

them in her own home until they found jobs elsewhere. One of the grievances she had heard over and over from her Nepali (in this case Janajati) friends was that they felt unjustly oppressed by the Hindu upper castes and an evasive sense of Kathmandu-centrism in all walks of life. It did not help that the GAN delegation did not include a single non-Hindu, lower caste member or woman, nor were there any delegates from the rural villages. After consultation with her friends and acquaintances, almost all of whom were Janajatis, Mary turned down GAN's request and said that she would take on the lobbying only at her regular business rates. This was again something GAN could not afford. Nevertheless, Mary did initiate some contact with the Nepali diaspora living in the US, encouraging them to write and campaign among the US policymakers.

The delegation's initial success in having the trade bill proposed in the Senate was soon overshadowed by their inability to recruit a full-time lobbyist and carry out the necessary follow-up in time. The timing turned out to be especially bad. Even before a discussion could be initiated on the bill in the US Senate, it came under pressure from its opponents over two serious foreign policy mistakes made by the Nepali government. A longstanding dispute with a Texan hydropower company, Panda Energy International (PEI), over a compensation claim relating to its forced premature withdrawal from a project due to Maoist-induced security threats remained unsettled, and once they learned about Nepal's preferential trade bill in the US Senate, PEI counter-lobbied Senator Feinstein. The second foreign policy blunder which in essence nipped the garment lobbying efforts in the bud concerned Tibet. In May 2003, as part of King Gyanendra's efforts to win Chinese support for his assumption of State power, Nepal arrested and handed over to China eighteen Tibetan refugees who had just escaped and were on their way to Dharmashala to meet the Dalai Lama.<sup>112</sup> This was a violation of international refugee law and provoked sharp criticism from the United Nations as well as from the world-wide network of the Tibetan diaspora and their global supporters. The pro-Tibet activists, who had a particularly powerful presence in California, approached Senator Feinstein and Richard Blum to voice criticism at their support for Nepal in the face of its persecution of the Tibetans. With protests brewing among people of her own constituency, Senator Feinstein withdrew her support for the Nepalese preferential trade bill, effectively annulling it even before it was officially reviewed.

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<sup>112</sup> In October, 2002, King Gyandendra had dismissed the elected government led by Sher Bahadur Deuba to appoint a royalist, Lokendra Bahadur Chand, as the new Prime Minister. The change of regime also meant the intensification of the royal campaign for Chinese and Indian support.

Although the future of the trade bill looked uncertain in the US, GAN continued its efforts to keep the momentum going in Nepal. Taking stock of its past mistakes, the GAN President acknowledged in one of its town hall meetings:

We sometimes forget that when we lobby for garments from Nepal, we actually are lobbying for Nepal itself. This then means that we must acknowledge what people believe Nepal is: Nepal's identity in front of the international community is that it is the land of the Himalayas, the land of brave Gurkhas, the land of Buddha and the land of great ancient art and architecture. We should promote these images when we promote garments from Nepal.

GAN Executive Committee members approached several Tibetan organisations in Nepal and India, but were unable to bring them on board to support Nepal's garment bill in the US. Among others, GAN approached the owners of Swakan-Chhemu whose business model had drawn successfully on their networks with Tibetans as well as celebrity followers of Tibetan Buddhism in the US and Europe. Swakan-Chhemu was not interested; in fact they sarcastically said:

These Bramhus (Newar for Bahuns) are very cunning. First, they voided our non-quota market subsidies for us (referring to the policy benefits described earlier), and now they want us to spend our time, which we do not have, to work for the quota market. Ok, we might do this, for once, as a favour to them. But one must never trust a Brahmu. They will use us now, and then when their interest is achieved, they will come and harass us later for producing garments with Tibetan symbols. They already poke this issue each time the Nepali Communists have their upper hand in the matter. One should never make friends with Bramhus.

A second delegation on Nepalese garments went to Washington DC in October 2003. This delegation offered a formal apology to Senator Feinstein on the Tibetan refugee issue and successfully persuaded her to re-sponsor the bill and re-table it in the US Senate. The same delegation also brought on board Republican Congressman James Walsh from Syracuse, who had spent two years in the Terai region between 1970 and 1972 as an American Peace Corps Volunteer, to sponsor and introduce the bill in the US House of Congress. Although the bill was now formally tabled both in the Senate and Congress, it was incumbent on GAN to find two more US legislators who would second the bill in each of the Houses. The delegation was unable to do this during its short trip. After its return, the Nepali Embassy continued its lobbying efforts in Washington DC. Among those it approached were the Pritzker family who owned the global Hyatt hotel chain, had a house in Nepal and were interested in ancient Newar art and architecture.

Others included leading anthropologists who had studied and taught about Nepal in renowned universities, the Nepali diaspora living in the US and other well wishers. Despite heroic efforts, the Embassy never succeeded in bringing on board the two other US legislators necessary for the proposed bill to be approved as a policy.

GAN revived its lobbying efforts, one more time, after nearly a year. This time, a multi-national alliance was formed with Bangladesh, Cambodia, (post-tsunami) Sri Lanka and four other small island states from the Pacific. Despite the fact that Bangladesh and Cambodia had strong lobbying experience, the tsunami made a strong case for the inclusion of Sri Lanka and the remaining small island states invoking much sympathy in the US, the proposed bill was never approved.

### **3. Labour unionism**

In addition to the politics of the State and capitalism that I have already discussed, an equally important precondition of industrial organisation among the garment factories is Nepal's long history of labour politics. A brief analysis of this history is thus essential in order to explain current developments in the garment industry. As early as 1975, the labour cadre of the Nepali Congress party had led a historic labour 'slow-down'<sup>113</sup> at Biratnagar Jute Mills (the country's oldest), at the time under the leadership of GP Koirala who later rose to preside over the ruling Nepali Congress and serve multiple terms as Prime Minister. Various streams of the moderate and radical communist parties that proliferate in the political scene in Nepal have historically also commanded strong support from modern factory workers. The tradition of formally registering as labour unions, however, came much later. Although the Nepal Factory Workers' Act 1986 made some provisions for labour rights, the Panchayat regime effectively maintained a ban on overall labour unionism to the effect that the first labour union of Nepal, the General Federation of Nepal Trade Union (GEFONT), was founded underground in 1989. The labour wing of the Nepali Congress was consolidated into the Nepal Trade Union Congress (NTUC) only in 1991. Both these unions underwent cycles of mergers and splits following the trends in their base party politics. Although GEFONT divided into as many as four splinter groups at times, it recombined after the 1991 democratic movement. Within the NTUC, however, a splinter group went on to found the Democratic Confederation of Nepalese Trade Unions (DECONT) in January 2001 as the

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<sup>113</sup> A popular form of labour protest where workers reduce the pace of their work in a deliberate and coordinated fashion.

so-called *chhattise* (thirty-six) dissident parliamentarians from within the Nepali Congress, implicitly led by former PM, KP Bhattarai, challenged GP Koirala's leadership in parliament. On a different front, the Maoists had also already formed their own All Nepal Labour Union – Revolutionary (ANLUR) in 1996 (Manandhar, 2001: 62).

Although the labour union movement significantly strengthened in the early and mid-1990s, it remained shallow-rooted in the readymade garment industry. For example, out of over 400,000 fee-paying members the labour unions collectively had in 1997, only 3000 of them came from the garment, textile and spinning industries. It is possible that their unexpected growth in the 1980s and 1990s might have caught labour unions by surprise. Also, the extreme seasonality of production and lack of predictability of business in the garment factories meant that owners had to maintain a high degree of labour movement across factories, which was only possible by avoiding the establishment of a permanent labour force. Initially this was achieved by recruiting migrant workers from Terai, Bihar and Uttar Pradesh and later, by conditioning the hill workers to accept a productivity-based remuneration system in place of the conventional daily or monthly remuneration system (see Section 2 of Chapter 4 for details). Finally, a much publicised garment industry crisis caused by the Harkin bill in neighbouring Bangladesh might have particularly cautioned the garment manufacturers about potential threats coming from labour activism on the factory floors. Although the controversial Harkin bill on child labour in garment factories – proposed by Senator Thomas Harkin in 1994 – was never approved in the US Senate, it wreaked havoc in Bangladesh, leading to the overnight dismissal of over ten thousand underage workers from Bangladeshi garment factories. Since this scandal, garment manufacturers all over Asia, including Nepal, had made special efforts to deter any form of labour activism. The extent of suspicion among the Nepali garment manufacturers is exemplified by the fact that when the International Labour Organisation (ILO) set out simply to enumerate the number of garment workers, only one garment manufacturer gave it access to his factory.

Because the garment industry lacked serious labour activism, some of the factory owners actually recruited labour unions to help with public relations. For example, Arya-Nepal actively mobilised the local Nepali Congress leader to arbitrate with local residents on disputes related to land acquisition and utility consumption, as well as to facilitate matters of local philanthropy. For such services, Arya-Nepal not only paid the NC leader

regular ‘donations’ for his political activities and events but also agreed to recruit some of the NC political cadres into the Arya-Nepal workforce. Throughout the seven years of its operations, NTUC never once called a strike in Arya-Nepal. In fact, the NC leader (unsuccessfully) tried to mediate a truce between Indian and Nepali workers during the labour uprising following the ethnically charged statements allegedly made by the Bollywood actor Hritik Roshan. It worked with the managers to keep the factory operations ongoing when a local gang tried to disrupt factory operations to protest against Arya-Nepal’s late night shifts. Later when individual workers sought to manhandle the some of the managers on wage-related grievances, the NC leader and his cadres stepped in to intimidate the workers.

It should be remembered, however, that mobilisation of labour unions for managerial purposes was something only the Marwaris and Bahun-Chhetris could do. I regularly visited a number of Newar factories, all of which were located in Lalitpur and Bhaktapur, where local politics was more in the hands of the communist parties than the Nepali Congress. Likewise, the labour unions in these factories were dominated by GEFONT rather than NTUC. Even though the factory owners preferred their workers to choose the more pro-capitalist NTUC over the strictly communist GEFONT, they refrained from any political engineering against the locally dominant parties. I will give a broader background to the geographical concentration of GEFONT (and communist parties) in the following paragraphs.

It is said of the two districts of Lalitpur and Bhaktapur that ‘the [1990 movement] would not have succeeded if the people of Bhaktapur and Lalitpur had not been willing to revolt and die in front of the soldiers’ bullets’ (Gellner, 2003: 166). The political leadership of Bhaktapur had been unequivocally in the hands of the Nepal Workers’ and Peasants’ Party, a Bhaktapur-wide Communist party, which saw its own candidates successful in both local and national elections even before the Panchayat system was officially ousted. The 1991 election saw a clear Communist victory in both Lalitpur and Bhaktapur, and the consequent popular view painted all Newars as Communists. This reputation diminished for the Lalitpur Newars, however, as the 1992 local elections saw a Congress majority in 12 out of 22 city councils in Lalitpur. Subsequently it was said that the Newar elite had come to regret the Communist victory in the 1991 elections because it left them without any clear access to government.

The peasants and workers from Lalitpur and Bhaktapur remained staunch Communist supporters. The class split in the political activism within Lalitpur was reflected clearly in industrial organisation – the factory owners were supporters of the Nepali Congress (or the royalist Rastriya Prajatantra Party in one case). One of the Newar garment factory owners that I interviewed confessed that he had personally voted for the Nepali Congress but their factories still gave bigger donations to the Communist labour unions:

What to do? Located in a place like this, which is a Communist *gadh* (fort), we cannot afford to be seen close to other parties. So, I do not have long talks with the Congressis when they come to my factory. I make sure I give them smaller donations than what I give to the Communists. Otherwise, who knows what might happen tomorrow? When I have local issues, e.g., if something is wrong with my utilities, or if I have a clash with the local community, etc., it is the local Communist leaders who I have to ask help from. On the other hand, everybody in the Garment Association is Congress. All industrialists are Congressis. If I want to stay an industrialist, Communism is not the way to go. The Communists are hard-headed; they will always put workers above us. But what are we to do?

It can be said that the sudden emergence of the Maoists in the garment industry after 2000 was due to the fact that they were simply filling the vacuum left by conventional labour unionism. At least in the mass-manufacturing factories owned by the ruling elites, Maoist labour unionism effectively dismantled the capitalism-oriented mechanisms that had evolved in the hands of the conventional labour unions. Elsewhere, it penetrated the invisible wall factory owners had built to keep labour activism at bay. I have stated earlier that the second Maoist national plenum in February 2001 gave ideological backing to the Prachanda path, which called on its cadres to move their focus from the periphery to the centre. Some aspects of their advance to the centre were their raising the flags of patriotism (by voicing an anti-India rhetoric), indigenity (by setting the so-called Indian castes of Marwaris against the indigenous castes of Newars and other Janajatis), and communism (by setting the so-called feudal castes of Bahun-Chhetris against the lower castes and by imposing radically anti-capitalist demands on behalf of the workers). On all three counts, a labour-intensive and (at the time) profitable garment industry with close and messy connections with India was an easy scapegoat. The Maoists covertly seeped into the world of garment workers within the Kathmandu Valley weakening the labour bases of NTUC and GEFONT.

The fissure that emerged within the ruling Nepali Congress party during June to November 2001 helped transform the covert Maoist operations into an overt offence. The Holeri assault<sup>114</sup> was a landmark victory for the Maoists which not only soundly defeated the armed police force on duty but also exposed the more troubling question of constitutional control over the army – which eventually forced GP Koirala to resign from his premiership.<sup>115</sup> His successor Sher Bahadur Deuba, took a softer stance against the Maoists, calling for a unilateral ceasefire and sending them an invitation to peace talks within five days of taking office as Prime Minister. Taking advantage of the impunity granted by the State during the ceasefire, the Maoists flexed their muscles in two of the key industries, namely hotel management and garment manufacturing, where their proselytising had been especially successful. Public resistance committees were formed in almost all of the garment factories and frequent mass meetings were held openly in public places. By comparison with NTUC's and GEFONT's calls, the Maoists' calls for a labour uprising were more sweeping, their demands were spelled out in detail, and were directly linked to the workers' interests. They included: (i) raising wages for unskilled and semi-skilled workers by 50 per cent; (ii) doubling wages for floor supervisors; (iii) converting all the thousands of subcontracted workers into direct and permanent employees; (iv) ensuring that women workers were escorted right to their doors when they left factories late at night; and (v) ending the imposition of Indian religious practices, such as vegetarianism, within factory complexes among Nepali workers. NTUC and GEFONT occasionally made efforts to facilitate dialogues between the factory owners and Maoist labour unions but they did not succeed and in most cases, the factories suspended their operations. The only factories that could continue and keep Maoist labour unionism at bay, were the select few manufacturers of specialised garments who picked their workers very carefully, avoided fast labour turnover, and who, ironically, manipulated the family, kin and ethnic networks of their workers to maintain their loyalties (see discussions on labour organisation in Rongoli and Swakan-Chhemu, Chapters 5 and 6).

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<sup>114</sup> During 6-13 July, 2001, the Maoists attacked six police posts in the districts of Lamjung, Nuwakot, Ramechhap, Gulmi and Dailekh and abducted 69 police from the town of Holeri. The Maoists also formed a regional alliance called the Confederation of Communist and Maoist Parties of South Asia (CCOMPOSA) during the same days.

<sup>115</sup> During the Holeri shoot out, the army, stationed only few kilometres away, declined to come to the aid of the police under the civil (power) directive. This raised a serious question as to whether the Prime Minister or the king had ultimate control over the army and this badly shook the already fragile political balance in the country.

In November 2001, the third round of peace talks between the government and the Maoists failed and the Maoists set up a thirty seven member Joint Revolutionary People's Council headed by their ideologue Baburam Bhattarai. They also launched simultaneous attacks in Surkhet, Dang, Syangja and other parts of the country. Within a few days, King Gyanendra declared a national state of emergency, the Maoists terrorists and deployed the Nepali army to fight the insurgency. This was followed by a heavy crackdown on the Maoist labour and student unions functioning within the Kathmandu Valley. This had serious implications for the garment workers as several were arrested and the budding labour activism in the garment industry was checked. After a thorough 'cleansing' of Maoist labour unionism, the garment factories returned to normal operations under heightened security measures within the Kathmandu Valley.

#### **4. Conclusion**

In this chapter, I have explored the nature of economic and political embeddedness within a broader cultural configuration, which has deep implications for the dispositions of each social group within the national entrepreneurial order. In doing so, I have disagreed with some social scientists who optimistically argue that social capital, or informal connections, play an important part in the reproduction of classes to counteract the effects of economic stagnation. This debate, regenerated by Putnam's notion of social capital, calls for the possibility and usefulness of (de)politicisation of economic and social movements. Following Bourdieu, Coleman and Harriss, I disagree with such a compartmentalised view of social capital. Instead, I emphasise that what each actor will make out of grassroots organisations will vary according to its own situation of power. As I have shown for the garment association and its labour unions in Nepal, the politics of the Maoists, GAN and labour unions mean something very different for each business house, and has to be qualified by its individual positioning within the local-global political order. The caste and ethnic identities of the entrepreneurs, spread out on the broader political constellation of power, is what allows each entrepreneur to benefit or lose from this mix of political and professional bodies.

The social capital scholars might claim that GAN and labour unions are successful cases of the regeneration of society-based resources, and that the fact that they are so influential in the functioning of the individual factories, provides the evidence that social co-operation fosters economic development. The reality is different. What my evidence suggests is that the roles of GAN and labour unions are not apolitical but political; and

the role they play in the business of garment-making draws largely on the nature of their politics, which is not static but continuously contested. Where each caste/ethnic group stands within the domestic politics of civil war as well as the international politics of globalisation varies - and with it varies their contributions to and drawings from the local politics of GAN and labour unionism. What I further argue is that in sharp contrast to the compartmentalisation of politics and economy, there is a strong case for bringing the political back into the discussion of social capital, and its economic and cultural regenerations.

I have already shown in Chapter 8 that the relationship of individual entrepreneurs to the State was different depending on their caste and ethnicities. In this chapter, I have shown continuation of caste/ethnic differentiation in the way entrepreneurs dealt with GAN and labour unions. Both these associations, if anything, are peripheral extensions of the caste politics dominant in the centre. The Newar entrepreneurs who are marginal to State politics are also marginal to GAN and labour union politics. The Marwaris and the Bahun-Chhetris are better represented in GAN as they are in State-protected industries (see Chapter 2). In fact, as expressed openly by some GAN members of these castes and ethnicities, without such informal cultural overlapping with the State, it would be very difficult to ensure the smooth operation of both these institutions. The issue of caste- and ethnicity-based alliances are relevant not only within the local context, but also the global, as can be seen in GAN's efforts to engage with foreigners and their responses to them. Not surprisingly then, to what extent these entities are available to factory owners as their tools and to what extent they are obstructions to pursuit of their business interests, is something that depends on where they stand within the power constellation of caste politics.

The exclusion of the politics and ethnicity debate from economics – as suggested by the Putnam school of social capital – only disguises the fact that the development of a politically and ethnically charged industry is a consequence of global politics on trade (e.g. the MFA) as well as local politics on philanthropy and labour unionism (e.g. Maoist insurgency). My account of how MFA and Maoist politics silently came into the picture of the garment world, only to create havoc within a decade, is also an account of how the roles of GAN and labour unions were transformed irrevocably through localisation of politics. Politics do bring in new opportunities and threats to economy and society as a whole. The extent to which these alter the fabric of mass organisations is a core element

of the social capital debate as seen in the work of Bourdieu which claimed that local configurations of power might be path-dependent; yet, they are definitely not monolithic but assorted, and not static but dispositional.

## Chapter 10: Conclusion

In this thesis, I have tried to show how cultural differences between the elite business communities of Nepal are reflected in their choices of economic vocations and industrial organisation, as well as in State-entrepreneur relationships, hence influencing the capacity of individuals, firms and societies to respond to changing circumstances. Following Bourdieu's line of enquiry on cultural capital and North's on institutions, I have highlighted the political, historical and cultural determinants of industrial development in Nepal in order to analyse the relationship between formal and informal economic processes and how are they transformed as the economy modernises. The centuries-old history of caste politics and the decades-old history of party politics have been materialised in the modern readymade garment industry in times of mounting global and local crises. What emerged in this industry in the late twentieth century was a broad cultural and entrepreneurial movement, whose foundations lay in the 1980s and 1990s, linked in complex ways to economic policy, politics and socio-cultural configurations. This movement involved young people from elite families abandoning their traditional vocations to switch to modern and lucrative careers. Such a movement might only have been temporarily economically viable, at least in its original forms, but it lasted longer than expected because it happened at a time when Nepal was rapidly integrating with global culture, politics and market. The movement instigated a modification of the dominant cultural and political values of both industry and society. The irony was that the 'modification', at least over the long run, was much closer to the original values and realities of the social classes involved than their reverse.

In my analysis of the cultural capital within the otherwise mundane world of the readymade garment industry, I have shown the slow process through which the entrepreneurs abandoned their traditional vocations to seek space in a profoundly new garment industry. This is similar to a process Bourdieu described as the widening of the field. On the garment shop floors, elite entrepreneurship emerged from the gradual dismantling of the strict caste and ethnic vocational order alongside a parallel resurgence of old entrepreneurial, artisanal and social heritages in the context of economic modernisation. Beyond the shop floors, the emergence of new entrepreneurship was a result of complex and dynamic interconnections between the institutions of class and culture that became manifest in the alliances and hierarchies that developed. At one level, such widening of the field entailed deeper interdependence between culture-

intensive and capital-intensive processes of production and exchange. At another, it required class and cultural restructuring among the agents involved so as to expedite the very process of widening. The emergence of Rongoli and Swakan-Chhemu was a slow process of first dismantling, and then re-ordering, during which a deepening of several subjective and objective elements that were fused together in the mental models of the early entrepreneurial elites took place. The processes of designing and manufacturing products in Rongoli and Swakan-Chhemu involved the convergence of cultural and economic spaces, houses and families coming together with factories and business alliances, in the context of the new competition that emerged as a result of economic modernisation and global integration. The final outcome of such negotiation and renegotiation is reflected in a remodelling of industrial organisation arising out of creative destruction of local culture on the one hand and substantial adaptation of global culture on the other.

Chapter 9 specifically focused on the caste-politics nexus in the formation of business alliances and in State-business relations to show that new capitalism is not only about mechanisation and rationalisation of the production process, but equally about reinvigoration of the old social order into business alliances which help entrepreneurs ride the rising waves of global competition. This is seen in entrepreneurs' continued negotiation of identities constructed through centuries-old institutions of caste and politics. Especially from the point of view of State-level identity politics, the Rongoli owners are the Marwaris whose ancestors were once officially invited from India by the Nepali State to build the first cohort of modern industries in Nepal. In an essentially Hindu kingdom, the Marwaris have a large amount of overlap with the religious values and ritual norms of the ruling Hindu elites who govern the State. The rituals of *Dashain tika*, the regular practice of *chakari*, and their Indian connections, as well as their elite status within Nepali society, are used as tools to forge and strengthen informal relationships with State bureaucrats who have discretionary powers on whether or not to bestow State policy benefits on artisan factories. It is a paradox, however, that Rongoli has been equally successful in invoking an 'indigenous' Nepali identity before the Maoist rebels, even at a time they were waging a war against capitalism and 'Indian imperialism'.

The Newar Shakyas of Swakan-Chhemu are struggling to keep their business relationship with the State from being displaced by the 'old' (Marwari) and 'new'

(Bahun-Chhetri) Hindu business elites who enjoy State privileges. Why they are less effective in their socialisation with the ruling elites, and as a result, remain outsiders when it comes to making use of State policy incentives for exports, involves a myriad of issues that come with identity politics including, but not limited to, language, values and history. One such issue is that the Newars' monthly and annual festival calendar has little overlap with that of the State, which means the Newar entrepreneurs have a social circle that is virtually apart from that of the State bureaucrats, and so there is very limited opportunity for any social exchange between the two. Such disadvantages manifest themselves again when the Shakyas seek to forge alliances with the labour unions and entrepreneurs' associations. Some of their shortcomings are compensated for by their successful capitalisation of entrepreneurial, artisan and political legacies from pre-unification Nepal: For example, their market includes the consumers of medieval Buddhist art and philosophy, their suppliers are the Chinese rivals of the Indian (and Hindu) businessmen and their financiers are western patrons of their estranged Tibetan kin.

The Bahun-Chhetris of the mass manufacturing Arya-Nepal could not present more of a contrast with the Newars. As members of the *de facto* ruling castes that governed the country from its unification in 1769, their material wealth increased after political power was diffused from the royal family to a broader base of upper Hindu castes of Bahun-Chhetris. Although few of them considered entrepreneurship as a vocation before the dismantling of the caste-based penal code and modernisation of the State in 1951, they later increasingly dominated State-protected entrepreneurial areas. Interestingly, despite such privileges, there were no Bahun-Chhetri producers of cultural products; all of the Bahun-Chhetri garment entrepreneurs were manufacturers of homogenised products within the garment industry and elsewhere. The Bahun-Chhetris do not have access to the traditional knowledge, skills, networks – and above all, the right cultural identities – that would have allowed them to develop a niche in specialised garment production. Instead, they are successful in making good use of State subsidies and organised enough to try their hands at policy lobbying and labour unionism. Such privileges, however, have been eroded as the Maoists have sought to extend their influence over this industry, aiming to uproot feudalism and caste elitism. The success of the Bahun-Chhetris in mechanising the production process and forming alliances with the State bureaucracy became the very Trojan horse that turned them into captive victims of the Maoist insurgency.

The history of the readymade garment industry in Nepal, as I have shown, reveals the paradox of cultural anonymisation and polarisation as the industry made a partially successful transition from old to new entrepreneurship. Contrary to the myth that globalisation is about all pervasive homogenisation, we see that the cultural identities of both old and new entrepreneurs have become more pronounced in Nepal with globalisation. In fact, new entrepreneurship, like the old, relied on the interconnection between the strictly cultural and the strictly capital, and on its ability to shift between these two worlds throughout the transition. On one hand, there is a proliferation of business alliances where buyers and financiers are more interested in the cultural identities, knowledge and networks of their producers. On the other, business relationships that are forged purely on the grounds of cultural preference and convenience, without being anchored in commercial interests, are precarious and their transition from old to new entrepreneurship involve hurdles that are not always overcome.

Those business alliances that have emerged stable and sustainable in Nepal are the ones led by the old entrepreneurs who draw on their cultural capital for production of specialised garments. Relying on their family and social organisations, intergenerational knowledge transfer and a complex mix of inherited and improvised skills in industrial organisation, the old elite entrepreneurs have survived the new challenges of industrialisation. In times of industrial decline, these elite entrepreneurs improvised on their cultural capital but did not abandon it. In contrast, the new entrepreneurs – all of whom were mass manufacturers out of necessity rather than choice – were more dependent on their cultural habits, but were not successful in exploiting the core of these practices entrepreneurially so as to turn them into harvestable cultural capital. There is an implicit path dependency of cultural origin in the way individual entrepreneurs interpret the situation around them and the way they choose the substance and process of their business. From this point of view, I have modified Bourdieu's discussion of the dynamism brought in by symbolic violence in the otherwise static concept of field. Not only through my individual case studies but also through my ethnography of the traditional markets of Boudha and Indra Chok, I have shown that the widening of the field is a nonlinear process consisting of introspective cultural knowledge and skills, semi-rational networks within families and kin, coercion and control over the production and transaction processes and a deep self-consciousness of entrepreneurship as part of

their individual and collective identities. I will return to this in the conclusion of this chapter.

In Chapter 8, I used Whitley's (1999) work as a framework for my own and showed how cultural factors influenced and brought about variations in industrial organisation between the three firms studied. The immediate shop floor organisations at the point of production in all three factories reflect the broader culture that surrounds them and they evolved in response to the incremental processes of economic and political liberalisation. In the case of Arya-Nepal, modernisation has been achieved through fragmentation between capital ownership and management, within and between tasks of production and between the family and business legacies across generations. Outside the factory floors, however, Arya-Nepal<sup>3</sup> relied on integration of global and local skills while thrifitly cutting transaction costs and craftily manipulating labour unionism. At an inter-factory level, they were opportunists engaged in a cut-throat competition on price, quantity and time while at a broader level, they were lobbyists working to influence international and national policies for their gains.

In the case of Swakan-Chhemu and Rongoli, the rationalisation that dominated Arya-Nepal<sup>3</sup> and other mass manufacturers, did not exist. Instead, they followed a culturally nuanced distinction of 'insiders' and 'outsiders' to separate activities that are material (and thus lower in status) from those that are symbolic (and thus higher in status). To a greater or lesser extent, only those workers whose skills and roles were at the heart of material production, and who were rewarded more in kind and less in cash, were regarded as insiders. In Swakan-Chhemu, unskilled thread-cutters and skilled tailors were outsiders and store keepers, cutting masters, fashion designers and embroiderers the insiders. The outsiders were all rewarded in cash wages higher than the market rates while the insiders often compromised on short term rewards in the expectation of better prospects in the long term. The insider-outsider dichotomy was similar in Rongoli, except that they had more insiders than outsiders with whom they did business. For example, everybody on the factory salary sheets, including the 'untouchable' Damai tailors and the unskilled thread-cutting women, were insiders who had served the Rauniyars for several decades.

A similar insider-outsider dichotomy can also be traced in the relationships between the garment buyers and producers. While long-term relational obligations were simply not

feasible among the mass manufacturers, such a model evolved slowly over time among the specialised producers. Although this was not very different from the producer-worker relationship, the producers' worlds seemed different than the workers' in the sense that they were more exposed to the hegemony of their buyers hailing from distant corners of the world. This is consistent with what Ortner (1999) called counterculture – that old identities and orders change over time to adapt to the new demands of rationality, but the outcome of this change is a new order that is both different from and similar to, the original. In her own expression, the 'virtual' culture is neither a duplication nor independent of the 'original' culture. This is true for Nepal. At one level, the niche producers have sought to be the kinds of producers and to have the kind of cultural capital their global buyers and partners wanted. At another, they have also sought, with mixed success, to acculturate their buyers into their own culture and subtly usher in aspects of native values, norms and hierarchies into otherwise alien business worlds. The outcome is that the Marwari and Shakya garment entrepreneurs have become better conversant with global capitalist trends than their predecessors were, but equally, throughout this process, they have made efforts to present themselves to the global audience as the only authentic bearers of their culture.

Thus, with regard to the first question of my thesis, the garment entrepreneurs have different practices between mass manufacturers (as exemplified by Arya-Nepal) and niche producers (Rongoli and Swakan-Chhemu). Their practices are distinctive not only on the factory shop floors but also in inter-factory transactions as well as in the factories' negotiations with the State and international players. The multi-layered overlapping between the informal and formal economic processes has emerged largely as a result of the differentiated institutions inherited from the pre-industrial caste and ethnic configurations. The re-emergence of the culture-influenced economic practices and preferences reflect both adaptation to and compromise with the demands of the new market. I have shown in my work that the culture-driven alliances that gradually evolved over time, and the cost-centric calculations that came as *ad hoc* responses to immediate needs, have always coexisted in Rongoli and Swakan-Chhemu. My interest is in understanding the implications of this culture-economics nexus today, and whether it increases or decreases a company's chances of survival in times of policy and political crises. Comparing Rongoli and Swakan-Chhemu with Arya-Nepal, it seems that the enculturation of production knowledge has increased the odds in favour of Rongoli and Swakan-Chhemu, whereas the deculturation – framed as Taylorisation as in the case of

the shift from *juwa* to chain systems of production, and rationalisation as in the case of opportunistic business dealings with global buyers – has been one of the factors that led to the defeat of Arya-Nepal by the local political crisis invoked by the Maoist insurgency as well as the global policy crisis invoked by the expiry of the MFA.

The owners of Rongoli and Swakan-Chhemu are not only keepers of cultural knowledge but are themselves elite ‘old’ entrepreneurs whose excellence in the production and transaction process created the preconditions necessary for their successful transition into ‘new’ entrepreneurship. They resist new practices with regard to how they manage their labour, machinery and buyers because they feel that they will only work for a short time. It is not worthwhile, therefore, to make big changes which will only have to be redone after a very short time, and they are determined to overcome this dilemma by outmanoeuvring the global market and buyers. In continuing this industrial tradition of what and how to produce, niche producers like Rongoli and Swakan-Chhemu provide a counterbalancing force to mass manufacturers like Arya-Nepal who have radically transformed their industrial operations to suit the immediate market demands, and by doing so have made themselves increasingly susceptible to emerging political and economic problems. How this small segment of niche producers has coexisted with the mass-manufacturing industry and eventually outlasted it, offers an interesting reference point in explaining both the rise and demise of the readymade garment industry in Nepal.

The closure of Arya-Nepal and the resilience of Rongoli and Swakan-Chhemu in the long run show that the renewed significance of cultural knowledge in modern industries is associated with a rise in global consumer taste for cultural distinction. Breaking away from price and quantity driven consumers, niche producers are attracting a higher end market who are willing and able to pay for the myths and symbolisms brought in from the far-flung civilisations at their disposal. My three case study chapters (4, 5 and 6) offered detailed discussions of the planned and actual business strategies of both mass and niche producers. The latter have long operated at the level of ‘greater’ cultural capital, and over time, they have come to dominate the industry such that every mass manufacturer in the late 1990s was looking for an opportunity to cross the line to join the (culture-based) niche production. As stated at the beginning of this chapter, there was a broad-based process of widening of the field at play, on a scale much greater than before. The modifications in taste and production among the local cultural elites were only minor factors in the structural changes that took place among the garment makers in Nepal,

compared to the invasive changes in representations of cultures brought about by the integration of the Nepali garment market with the global.

The renewed representations of cultures that have undergone a process of what Ortner called counterculture formed the subject of Chapter 7. Although my observation of incidents in the individual factories (Chapters 4, 5 and 6) occasionally touched upon the theme of counterculture, it was only in Chapter 7 that I substantiated this theme through my ethnographies of the two cultural markets – Boudha and Indra Chok, which were the origins of the old entrepreneurs of Swakan-Chhemu and Rongoli. Through the past few decades, the integration of local cultural markets with the global has given rise to a new point of reference both for change and for continuity. Such a shift in the point of reference has instigated a process of counterculture that has modified norms, practices and values among the Nepali artisans and entrepreneurs. As Nepal opened up to tourism and NGOism in the 1970s, some entrepreneurs from these cultural markets came to realise that while they now had access to a whole range of new clientele from around the world, in order to serve them they needed to transform what and how they produced. As the rhythm of society and industry came into contact with outside agents – buyers and financiers, designers and suppliers or allies and rivals – entrepreneurs were increasingly under pressure to adapt to social and economic changes. The way the select few old business elites such as the Marwaris and Shakyas readily stepped up to the role of modern producers of ancient cultural goods was a good example. Their business strategies for the new market were neither entirely different nor similar to the business strategies they had pursued for the old. The Marwaris pragmatically drew on their expertise in fabrics and connections to weaving networks from all over South Asia in order to create more imaginative textile styles better suited to Western tastes. The Shakyas continued to emphasise high standards of craftsmanship, philosophy, history and knowledge over the needs of upgrading of raw materials and adapting to new market alliances. At some level, what the Marwaris and the Shakyas are seen to be successfully doing today carries nuances of what has been going on in these communities over centuries both on cultural and entrepreneurial fronts.

The Bahun-Chhetris, who disproportionately crowded the mass manufacturing segment of the modern ready garment industry, have never been cultural artisans or entrepreneurs in the past. Under the *muluki ain*, the Bahuns were practising priests and officials of the court whereas the Chhetris were warriors. Of course, money changed hands in these

professions, but the norms and morality of exchange were very different to those in the worlds of artisanal patronage or business entrepreneurship. As caste-based occupational codes were formally and informally weakened after the popular democratic movement of 1951, the Bahun-Chhetris in the villages increasingly engaged in farming, money-lending and rent-seeking while those in the cities took part in the civil service, office management, academia, activism and trade. Neither in the past nor in present is it possible to find an area of traditional art or culture-based enterprise where the Bahun-Chhetris have collectively prevailed. Such a vacuum of history reaffirms my original argument that the way the select few old business elites like Marwaris and the Newars – and not the Bahun-Chhetris – readily stepped up to the role of cultural entrepreneurs in the new market has as much to do with their cultural backgrounds as their technical business skills and finances. The old business elites like the owners of Rongoli and Swakan-Chhemu have tried to, and with a varying degree of success, have actually obtained, the cultural and professional traits desired by their buyers and financiers. In contrast, new business elites like the owners of Arya-Nepal<sup>3</sup> increasingly shied away from developing relational obligations with their buyers as it became clearer that cultural production was the only niche Nepal could realistically secure in the global market of readymade garments. This divergence in the roles taken by various business elites through the process of counterculture affected the local entrepreneurial order between the niche and mass manufacturers. Entrepreneurial differentiation helped the successful business elites, who were seen to be going against the ethos of mass manufacturing, to dominate a prosperous segment of the garment industry impenetrable to others.

A key question arising from the discussion on counterculture would be that of why then, could the twentieth century Bahun-Chhetris not follow a process of counterculture to acquire knowledge, skills and networks of cultural artisanship and entrepreneurship? Need the fact that they did not do so in the past necessarily stop them from doing so in the present or future? In part, the question of counterculture brings us back to Bourdieu's differentiation of strictly cultural from strictly economic capital and his assertion that subjectively defined 'interests' lie at the centre of both. As Bourdieu showed, the conversion of one form of capital to the other requires more of the 'gratuitous' expenditure of time, attention, care and concern than is required for conversions within the same form of capital. Attainment of cultural capital does not depend on innate capacities but emerges through the workings of an evolving social structure where knowledge exchange must be intricately combined with social

obligations and reciprocation. Within the assortment of rigid and fragmented social structures that has prevailed in Nepal for centuries, the flow of cultural knowledge, skills and networks has only rarely crossed boundaries of social hierarchies such as castes. It is only unfortunate from the perspectives of new entrepreneurs that the cultural capital that has remained the privilege of the old business elites has proven more powerful in the new market than the economic capital to which the new business elites had access.

Another important question arising is that of why Rongoli and Swakan-Chhemu were the only entrepreneurs among the old business elites who managed to break out of the conventional workshops and markets of Indra Chok and Boudha to join the new entrepreneurship that is nationally and globally integrated. I return to Bourdieu and his argument that habitus is not innate but a structured structure. The scope and depth of cultural knowledge, skills and networks that individuals accumulate is related to the array of experiences he or she undergoes in early life. This is similar to North's mental models. By nature, these would be part society-specific but part individual. This speaks to the fact that as a young man, Gaj's genuine friendship with expatriates and tourists gave him better insights into doing business with foreigners as his career matured. Heera Ratna's rise to the position of mayor – it was in this phase of his life that he developed the global alliances that would later help his family conceive the idea of Swakan-Chhemu – was a reward for his political contributions to the new elites throughout the democratic movement of 1951.

My argument about the embeddedness of economic behaviour in social relations suggests that the hierarchies of caste and ethnicity play an active role in the economic modernisation process, determining the nature of new products, business alliances and market. What is the relationship between formal and informal, cultural and economic, and individual and collective? An anthropology for the twenty first century would attend to such overlaps in the constitution of the subjectivities of those involved. In our efforts to explain and forecast the trends of economic and cultural change, we cannot ignore the negotiated realities of the underlying institutions. For North, these institutions, or mental models, evolve through the blending of genetic predispositions and cultural imperatives in modelling 'reality' for interpretations. The varied responses of the old and new business elites in Nepal to common opportunities and crises can be satisfactorily explained by this idea of the mental model. This last statement brings Bourdieu at par with North. Bourdieu's concept of habitus dismantles the arbitrary dichotomy created by

the Althusserians between ideological and economic actions, and persuasively explains how an individual's path specificity comes from calculation of interests and how it governs all walks of life. Bourdieu posits habitus within the discourse of cultural or symbolic resources, and by doing this, contextualises the rationality of action within social hierarchies. Why a business entrepreneur would choose a certain business response to a particular opportunity or crisis, then, has to do with his own habitus which in turn is situated within the caste hierarchy that has been all pervasive in Nepal's history, culture and economics. By listening to such subtle tones challenging dominant themes, and paying attention to the individual lives and deeds of both successful and failed entrepreneurs, this discourse offers an intellectual framework that connects human actions to social and institutional hierarchies.

## **Glossary**

<b>AGOA</b>	African Growth and Opportunity Act
<b>ANLUR</b>	All Nepal Labour Union – Revolutionary
<b>ATC</b>	Agreement on Textiles and Clothing
<b>CBPTA</b>	The Caribbean Basin Trade Partnership Act
<b>CMP</b>	Cut-Make-Price
<b>CMTP</b>	Cut-Make-Trim-Price
<b>CPN/UML</b>	Community Party of Nepal (United Marxist Leninist)
<b>DECONT</b>	Democratic Confederation of Nepalese Trade Unions
<b>DEPB</b>	Duty Entitlement Passbook
<b>DFID</b>	Department of International Development (British)
<b>DOI</b>	Department of Industries (Nepal)
<b>EIC</b>	East India Company
<b>FIT</b>	Fashion Institute of Technology – New York
<b>FNCCI</b>	Federation of Nepalese Chamber of Commerce
<b>GAN</b>	Garment Association of Nepal
<b>GEFONT</b>	General Federation of the Nepalese Trade Unions
<b>GSP</b>	Generalised System of Preferences
<b>IFI</b>	International Financial institutions
<b>ILO</b>	International Labour Organisation
<b>L/C</b>	Letter of Credit
<b>MFA</b>	Multi-Fibre Arrangement
<b>MOFA</b>	Ministry of Foreign Affairs
<b>MOIC</b>	Ministry of Industries and Commerce
<b>NC</b>	Nepali Congress
<b>NIDC</b>	Nepal Industrial Development Corporation
<b>NIE</b>	New Institutional Economics
<b>NIFIN</b>	Nepal Association of Indigenous Nationalities
<b>NTUC</b>	Nepal Trade Union Congress
<b>PEI</b>	Panda Energy International
<b>WTO</b>	World Trade Organisation

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