

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Introduction**

Draped along the greatest heights of the Himalaya, Nepal is rich in science splendor and cultural treasures. A land of sublime scenery and often referred to as the mystical Shangrila, it has long exerted a pull on the western imagination.

Nepal is least developed, landlocked and come into the categories of poorest country of the world. It is situated between China in the north and India in the east, west and south. Nepal is also one of the richest country in the world in terms of bio-diversity due to its unique geographical position and altitude variation. Nepal spread over 147,181 sq. km. of land area covering approximately 885 kilometers from east to west and 90 to 230 kilometers from north to south. The elevation of the country ranges from 60 meters above sea level to the highest point on earth, Mt. Everest at 8848 meters, all within a distance of 150 kilometers resulting in climatic conditions from sub-tropical to Arctic. This variation has provided Nepal ample opportunity for the growth of the thousands of flora and fauna throughout the country. There are about 9900 flora (plant species ) and about 8000 fauna (animal, birds, reptiles, fish and butterfly species) in Nepal.

Nepal is a small kingdom covering the area of 0.03 percent of the total world. It is one of the mountainous in the world with per capita income of about US \$ 311. It is struggling for its development whereby trying to raise the living standard of more than 27.5 million people. The very sources of its development are based on agriculture and natural

resources which are mainly forest based products. The contribution of agriculture is about 40.1 percent in gross domestic product (GDP) where as manufacturing sector contributes 10 percent in (GDP). India is the major giant neighbor trading partner. It has a major balance of trade direct with India for overland access to the sea. Foreign exchange is largely generated by remittances from Nepalese manpower working abroad, export of carpet, Garments, tourism and foreign aid. India is the large foreign direct investment contributor in Nepal.

To develop the country there would necessary high productivity, high income, and high rate of employment. But in agriculture based there could come many problems to achieve the desired goal. Several reasons like topographical, constraints, traditional method of farming, lack of irrigation and other infrastructure and also agriculture markets are responsible for the low productivity for high productivity there would be need of increasing returns to scale of production function.

Industrialization is considered as key indicators of the economic development of the country production of carpets in Nepal gets increase (boost) in the mid eighties and early nineties when Nepal exported 3.3 million sq. meter of carpet in FY 1992/93. The carpet export decreased by 10.79 percent during the fiscal year 2005/06 and again decreased 10.64 percent during the fiscal year 2006/07.

In Nepal, there are many potentialities of development among the water resources. These are major and heavy which can make the high income generation for the country. It is fact that Nepal is the second richest country in water resources in the world. In Nepal, hydro-electric power are the high potentialities to break the obstacles of industrialization. For industrializations of the country high quality

exportable goods are the essential things. The major exportable goods of Nepal are handmade woolen carpet readymade garments, goat skins, hides, raw jute, tea, handicraft, silver wire, jewelry and paper production. Among them hand-knotted woolen carpet is the major exportable goods. Out of total overseas exports its share was 32.48 percent in fiscal year 1996/97 in comparison with FY 1998/99 to 1999/00. The production of woolen carpet is approximately decreasing at 12 percent. This is because of few markets, lack of export diversification and high cost of production, poor quality and inability to attract foreign market investment.

## **1.2 Statement of the Problem**

Nepal is being one of the least developed and land-locked country, has a very dim hope of rapid economic development with excellent performance of small scale cottage industries. Nepal is horded with the Tibet autonomous region of China in the north and with India all the other sides. It comprises full of hills and mountains, any road route worthy for transportation by modern mean of conveninance do not exist on both the sides, Nepal and Tibet. Sea cost is also quite far from this point.

Hence, transportation and communication is the major problem of the export promotion of woolen carpets. At present exports of carpets from Nepal have to be air freighted which is, of course, very expansive and put Nepalese carpets at higher price than the product of other countries with direct access to the sea.

From fiscal year 1990/91, there had been continuous increase in carpet export until to fiscal year 2000/01. But after that a decling trend in the carpet export has been seen. There are a number of region behind the declining oft eh carpet export because there are lots of things to be done

to make maximum benefit from a growing industry such as proper allocation and utilization of the resources, competitive price policy, child labor, quality of carpet, market diversification which play an important role in the success of an industry. Most of the factors mentioned above are lacking in developing economies due to which the industry has to bear losses. Because of declining export of carpet a number of adverse affects have already been seen in the economy. In the fiscal year 1992/93, Nepal exported 3.3 million square meter. But in the period 2005/06 the total export of carpet showed only 1.48 million sq. meter. The export declined in fiscal year 2006/07 by 10.64 percent, exporting only 1.34 million sq. meter of carpet.

Production and export of woolen carpet is greatly disturbed by irregular and inadequate supply of raw material or woolen year. Quality of such woolen yarn is inferior and the product range is extremely limited. The another related problem seen that produced quantity of carpet could not supplied on time because of Nepal Band, Andolan, Chaka jam etc.

Further more, lack of designers, pattern grader cum weavers lead to poor quality and traditional products. Lack of wide range of quality woolen yarn, the high cost of imported woolen yarn and other dyeing raw materials raises the cost structure of the exportable carpet. Due to unreliability and delay in sea shipment from Calcutta and high cost of air freight discourage frustrate exporters to increase the trade.

In Nepal, exporters have extremely no proper knowledge about market trends which is most important factors for the product in the highly competitive western markets. Available market research have not been able to reveal the correct trends of demand, strength, weakness and

market strategies of major competitors. Absence of such market information made critical situation in defining both large term strategies and short term adjustments of production and marketing.

Thus, all these above mentioned constraints is a matter of concerns for all policy makers, businessman and economist to study the causes of decreasing trend of carpet export. This study tried to analyze the production and export trend of Nepalese carpet. It also attempts to explore the possible reasons of declining of carpet export from Nepal.

### **1.3 Objectives of the Study**

The general objectives of the study are to present the direct and indirect effect on Nepalese economy by the carpet exports. However, the specific objectives are as follows:

- a. To study the trends of Nepalese woolen carpets export to overseas markets from the periods of 1993/94 – 2006/07.
- b. To identify the major problems for export promotion of carpet in Nepal.
- c. To analyze the impact of carpet export in the national economy.
- d. To forward the needful recommendation to the concerned stakeholders

### **1.4 Significance of the Study**

Carpet industry, the one of the major employment generator and foreign currency earner, can be regarded as the dominant sector of the Nepalese economy. But in reality this domestic industry is the backbone of the Nepalese economy. It covers a high rate scale of export sector, and also provides the idea to get maximum benefit from on export of carpet.

This study would help to understand the problems faced by the carpet manufacturer and exporter. Further more it would help to understand various causes responsible for the growth and expansion of carpet industry at the valley level, composition of labor, its behavior and the wage structure and living standard of carpet labor at micro level. By the study the problem of carpet sector has been seemed, thought it helps to the policy makers and investors to make a right policy as their favors.

Further this study will identity the level at which stage the industry will get maximum benefit. So that every business man can manipulate his industry's overall activities and export activities. It will be easy to select the investment sector according to their productivity in order to get optimum allocation of resources.

## **1.5 Limitation of the Study**

There are following limitations of the study:

- a. Instead of export and import of woolen carpets, this study deals with the export side of carpet trade only.
- b. Limited time period and limited knowledge about research makes the problems of adequate data for this study.
- c. All data have been collected from secondary sources, no effect had been made to check the reliability of data.
- d. And lack of sufficient literatures and information in this field is another important limitations.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

In the present day world, for attaining the highest level of economic development, industrialization has been proved as most powerful instrument. Nepal is characterized as one of the low-income country of the world. The traditional assumptions are fully contributes so that agriculture is the main sources of Nepalese economy. The process of agriculture has also in tradition area. Carpet industry is no less or export of carpet has no less important in generating foreign currency as well as providing employment to thousands of people in the country. Statistic show that the export of carpet has sharply declined in recent years. Perhaps the reason largely falls under the failure in today's highly competitive marketing tactics through new information technology.

In the study, found that carpet industry in Nepal is a revolutionary change in the industrialization of Nepal. In sectoral diversification the employment generation of Nepalese socio-economic is mostly consist on this sector and has many opportunity to work both skilled and non-skilled manpower. This industry is as cottage industry and can involve many kinds of labor as accordance their skills.

Thus, in the present context, carpet industry has been the most important industrial sector of Nepalese economy for export promotion and to generate employment. Since descriptive studies has done in this field are briefly reviewed below using secondary data.

## **2.1 Conceptual Literatures**

Bajracharya, in his dissertation the carpet industry on export aspects in 1977 and found that there is significant relationship between export of woolen carpet and bonus as an incentive to the exporters. Therefore there would be good impact of bonous rates on the exports of the woolen carpet. He also concludes that the diversification of export of woolen carpet is needed however the export of woolen carpet is diversified. In other words, the diversification of export of woolen carpet is not sufficient for stabilized export growth (Bajracharya, 1977).

Joshi, in her dissertation studied about the participation of women in carpet industry and derived some significant results. She in her study found that women participation in weaving carpet industry are significantly high which is around 75 percent of the total labor force. Almost these female labor (88%) are illiterate and the rest are semiliterate. The job in carpet industry is of temporary nature. According to miss Joshi the main seasons of seeking job in carpet industry is to be self reliant economically in the family. The provision of labor welfare in these industries not available, the physical condition of carpet industry is quite unhealthy (Joshi, 1985).

Sharma, in his thesis pointed out the export aspect of carpet and concluded that the price of the same quality of carpets vary from one unit to another without any reasons. He suggests that the government should support the manufactures particularly in finding export market, display facilities of the products at the international level, feedback on taste and manufacturing technology (Sharma, 1989).



Subedi, studied the role of the carpet industry in employment generation and found that carpet industry has changed the composition of employment and a portion of disguisedly unemployed people of agricultural sector is employed in this sector. He also found that the possibility of expansion of carpet industry by injecting more investment because of the existing high demand for Nepalese hand made carpet in abroad which alternatively will create more opportunities of employment.

He also found that the main problem being faced by Nepalese carpet industry lies in the supply of raw materials which almost are imported by spending the valuable foreign currency carpet industry is also observing the females worker who are regarded as the department and economically inert people in eastern societies. The involvement of nearly half of the employees females in this industry is a significant matter for women's development because more than half of the country population is contributed by women. According to Subedi, carpet industry is most suitable for Nepal at this moment because it needs small investment and large amount of labor and it has been able to solve both the unemployment problem and adverse balance of payment by earning foreign currency from its export (Subedi, 1991).

Acharya, in his study of carpet industry used production function. In his analysis of carpet production function he used the Cobb-Douglas production function and regression (multiple regression model) the main findings of his study are:

- ) Production can be increased with the same level of inputs maintaining the uniqueness of Nepalese carpet.
- ) To capture the western market government should strive for quality control with street supervision and monitoring.

- ) Immediate step should be taken to stop employing child labor.
- ) The environmental issue being of technical nature, detail studies and analysis have to be conducted.
- ) The negative co-efficient of labor shows that labors are used excessively. So optimum level of labors should be used to increase the productivity of labor, which can be done by transferring some of the labor in other sectors of the economy namely construction works.

Despite the problems of low productivity rudimentary method of production, lack of commercialization and high reliance on weather the agriculture sector still enjoys a share of 40 percent in GDP and employees about 80 percent population. The importance of export sector lies in its potential contribution to ease balance of payment difficulties and secure valuable foreign currency needed for paying imports of capital goods, raw materials, fossil fuels, advanced technology and consumer's goods. All these influences the speedy transformation from agro based to modern and prosperous economy (Acharya, 1994).

Shrestha, studied the export aspect of carpet industry by using secondary data. According to her findings, Federal Republic of Germany is the biggest importer of Nepalese carpets which covers almost (26.69%) of the total overseas exports share.

Foreign currency earned by carpet export is one of the main high currency income sources of Nepal. It also advocates that carpet industries need to be promoted not only because of being the largest foreign currency earner but also more contributor in employment. Carpet industry in Nepal, is extremely labor intensive and it lacks technicians due to unorganized training program. Regarding carpet industry. He strongly

recommends that local production of quality wool need to be promoted which will reduce the dependency of carpet manufacturers on importing wool to meet their requirement (Shrestha, 1989).

Gurung, in his thesis found that the concerned bodies of the Government have failed to provide the facilities to the carpet industries such as product development and quality control, market diversification training and technical services, trade fair and exhibitions etc. According to him, Nepalese carpet successfully enter to the Europe and America not as a competitor to others carpets but as a unique qualitative and hand knotted product in its own right but due to declining quality of carpets and some disturbances in the international market, Nepalese carpet industry has been facing some internal and external problem since 1993.

Problem related to such as, lack of availability of enough skilled labor, raw materials, transport promotion policies and higher floor prices. Besides these problems, other challenge are child labor pollution of chemical used in the process of dying and carpet washing.

On the recommendation side, he has argued the Government to be active to give more facilities to the carpet industry. Providing raw materials, capital and creating other infrastructure, which will be helpful to capture the western markets as well as to spread Nepalese carpets in Asian countries. For this, Government should strive for the quality control with strict supervision and monitoring which will ensure the Nepalese carpet export to boom (Gurung, 1996).

Singh, in his overview focused that Nepalese carpet industry as surviving in the age of Globalization. According to him carpet industry, one of the major employment generators and foreign currency earning business, is one of the dominant sectors of the Nepalese economy. It

covers the major investment in the industrial sector. It has a major importance in terms of export earning, employing the illiterate and also establishing the industrial phenomenon in otherwise agricultural Nepal.

In his conclusion, as carpet has remained one of the major sources of export earning for Nepal and one of the biggest employment generating industry, market promotion of the carpet can have direct and positive effect on the economic development and poverty alleviation program in the country at large. The satisfactory growth in terms of quantity and value proves that both the quality and price of Nepalese carpet have been linked by the customers worldwide (Singh, 2008).

An article, "Bimochan" highlighted the unseen painful and uncomfortable environment inside the carpet industry. The study says that 98 percent of the total carpet industries are only concentrated within Kathmandu valley and the labors are mainly migrated from the hilly and mountainous districts like Sindupalchok, Kaurepalanchok, Nuwakot, Okhaldhunga, Ramechhap etc. Among them 80 percent of these labors have their own land in their respective districts but the quantity and quality of the land is very low. The study claims that around 2.5 million people are engaged directly or indirectly in the carpet industry, among them 20 percent are owner and labors. According to the study SLC palled labors are less than 3 percent in the industry and 46 percent are married, in which 50 percent have children, 10 percent children co-workers with their parents in the same factory. The study also focuses the payment made to the labors of the industry in which one of the most painful data pasteurized is that the labors work for more than 12 hours a day but they can save hardly Rs. 500 per month. There are middle men between the owner of the factory and the labors who always makes partial payment to the labors. But some where, the labors are luckily as they do not have to

pass through the mediator. For their payments from the owner and they will be able to earn Rs. 2000 to Rs. 2500 monthly the payment is piecewise and the rate is Rs. 380 per square meter. A normal worker produces 6 square meter with a month. In this study it was also found that 2000 to 3000 people are migrated monthly to the valley for getting employment in carpet industry.

The concluding part of the article stress the importance of carpet industry in promoting employment generation and export promotion but the condition of labor, specially their health, shelter, education etc. are not given emphasis and the labors are just treated as physical factor of production. The study recommends that factory owner must cooperate with INGOs and NGOs which are working to improve the working condition of carpet labors (An Article, 'Bimochan', 1994).

Basti, in his article highlighted the export of hand made carpet from Nepal from the year 1992/93 to 2005/06. The study says that in the fiscal year 1992/93 the export of hand made carpet was 3328000 m<sup>2</sup> which was very best position of Nepal to carpet export in different overseas market. Latter, the export of carpet reduces continuously and come to the volume of carpet export is 1341757 m<sup>2</sup> in FY 2005/06. This is more than 60 percent reduction in the carpet exports. Fiscal year 1992/93 has highlighted the top year of carpet export.

Causes of carpet export reduction from the year 1992/93 to 2005/06 has explained that, due to the high good will of Nepalese carpet in international market, there was the heavy demand and new unqualified private carpet exporters, industry entering. Due to lack of quality product, unfair competition in carpet exports and increasing unhealthy competitions making quality side weak due to this above cause along

with child labor issues in international market of Nepal is carpet industry leads the demand of Nepalese carpet very low and reduction takes place upto 60 percent from the year 1992/93 to 2005/06 (Basti, 2008).

## **2.2 Empirical Literature**

UNCTAD/GATT has presented overview of carpet industry in Nepal. According to this study handicrafts including carpet knotting play an important role in Nepalese economy, which is some times described as a handicraft economy and its stages of development as handicraft stage. It also points on the weaknesses and problems of the carpets and recommends immediate suggestions on improving quality design and cost of Nepalese carpets for exports. This study gives top priority to the integrated action plan for the implementation of dyeing, designing, and quality improvement of carpet. This study has shown that carpets are produced mainly in Kathmandu, Pokhara, Solukhambu, and Hetauda. Carpets are produced in the northern parts of the country where raw wool is easily available (UNCTAD/GATT, 1981).

Dr. K.C., in his research study found that Nepalese carpet factors as the location of one of the worst form of child labor. The study used RA methodology recommended by ILO/UNICEF to investigate the worst form of child labor over a 3 month period, with the objective of designing strategies to eliminate such child labor. The carpet sector in Nepal has been a leading industry in export, production and employment. It employed about 250000-300000 labors during its "Gold Rash" period in the early 1990s. Its production capacity reached a maximum of US\$ 190 million per year with a share of 65 percent of total exports. Since then, the carpet sector experienced a great recession. It suffered not only an

economic recession but also a moral recession for employing and exploiting child labors.

In his recommendation part of research study says there should be a provision of subsidies for export manufactures on the basis of quantity of exporting carpets and the amount of revenue to be paid to the government. Some portion of the revenues may be directed to investing on the education of children health facilities, and skill training for the workers and their families.

In order to eliminate the worst form of child labor small level employers must be made aware of the legal instruments and ILO conventions related to employment and child labor child labors should be offered non formal education and schooling. Non-formal education should be provides to other adult workers concerning trafficking, debt bondage, sexual abuse and harassment and the rights (K.C., 2002).

Domotex, Germany in its seminar focused some significant information about carpet export to Germany. There was highlighted that Nepalese carpet had its own identification and Nepalese carpet exporters were very honest so that the future of Nepalese carpet always bright. "As Germany imports 90 million square meter of carpet every year, and economic problem in Germany is becoming less acute. The export of Nepalese carpet to Germany can revive if Nepal diversify the products in effective way. Mr. Selvi suggested Nepalese Gout. to talk in governmental level to abolish the anti dumping law imposed by Turkish government on Nepalese carpet. If so happens he alone can import more than 100000 sq. meter of carpet from Nepal.

The number of visitors to Nepal Pavilion and the business contact made so far as clearly indicated that there the possibility of the export

growth in the year to come. Moreover the interaction with importers has helped to build vision for the future policy and strategies relating to export. From this point of view, the participation in the fair has achieved a big success (Domotex, 2006).

NCEA organized a program of carpet fair in Moscow, in the program, 4 Nepali carpet exporters affiliated with Nepal carpet exporters' Association took part.

As Moscow – the capital of Russian federation has been developing as business hub of Eastern European countries. The statistics presented by Carpet and Wool Development Board of HMG show very negligible volume of carpet exported to Russia. It is also became that Nepalese carpet are exported to Russia via Germany. So, the program was as such through out the business opportunities and strength of Nepalese carpet. In the exhibition, the carpet exporters from Nepal displayed the sample of their latest designs, color and various knots such as 60, 80 and 100. Moreover posters, pamphlets, catalogue and Nepalese carpet journals were also distributed to the Russian importers. A video documentary film on carpet production procedure played on continuously during the program.

Moreover before leaving the Russia NCEA organized a press conference and presentation program. On the occasion Russian Ambassador told that there could be a big market potential for Nepalese carpet in Russia and Nepalese carpet exporters should explore every possibility therefore president of NCEA requested Ambassador for the GSP facilities for Nepalese carpet in Russia (Carpet Fair in Mosco, 2005).



An interview with Manfred Barfuss, is the largest importer of Nepali hand-knotted woolen carpets to know about the prospectus of Nepali rugs and his opinion on how Nepali exporters could maintain their position in the international market.

According to Barfuss, for the improvement of the share of Nepalese carpet in International market, the government and the political parties in Nepal will be extending a great deal to the carpet industry if they simply allowed the producers to do their job smoothly. It is very necessary for the law and order situation in the country to improve. Nepal needs to prepare a new constitution as soon as possible to make sure that normal daily life and business activities can go on unhindered.

His suggestions to address problems related to the labor stir. Labor problems and frequent strikes have raised the transportation costs of importers. This may prompt importers to turn to other countries to sources of carpets. Because of weakening US dollar, exporters are losing profits from exports. The Indian Government is providing 3 percent of the loss in the exchange rate to exporters as compensation. The Nepal Government should also think of the possibility of providing similar compensation. He also added, Nepali carets have special quality that can not be compared with India and China. Nepal need not worry about that but Nepali should make sure that the quality of their supply remains up to the mark. They should also look to engage their overseas trading partners in various activities in the country, that will deepen business links and enable Nepalese to enjoy better market access (Interview with Manfred Barbuss, 2008).

NCEA, in its memorandum included and submitted proposal to ministers about the decling of carpet export trend in the fourth month of

the fiscal year 2005 and previous year due to lack of good and effective policy about the trade. It also added there was not about the effective measures of trade activities especially in the carpet export which has maximum share in the total trade volume but now a days it is declining day by day (Memorendon, 2006).

After analyzing the about literatures, it is concluded that the conceptual literatures are mainly related to carpet export i.e. export of carpet is decling every year, impact of child labour in carpet production, negative political impact on carpet expansion, inadequate government policy about the carpet trade.

The empirical findings are related to export of carpet can be increased, quality of product can be maintained, eradication of child labour in carpet production leads to increase in carpet export to EU and American countries, potentiality of raw wool production in hilly and mountainous area of Nepal, price of carpet should be discriminated in different income group to maximize share of market.

But the contribution of carpet industry in total trade and GDP, impact of carpet export in employment generation, poverty reduction, export trend of carpet from FY 1993/94 to FY 2006/07, needful recommendation of stakeholders about carpet production and export, major problems of export promotion, foreign currency earnings are missing. My study justifies the above missing elements in carpet industry and carpet exports.

RUGMARK foundation, in its bulletin has derived some significant information about child labor in the woolen yarn spinning industry of Nepal. Their estimated statistics were based in the survey of 99 sample child labors of them 95 were working in the factories and 4 in

households. Likewise, 61 were identified in Kathmandu valley and remaining 38 in outside of valley. The children identified and interviewed during the survey were of the age 9 to 18 years. Similarly, among the interviewed of 99 child labors, 81 were females and 18 were males. Child labor in hand-knotted woolen carpet industry still remains a prime issue although its magnitude has come down significantly compared to the situation of 10 years back. Several national and international organizations have played joint effort for such a change (RUGMARK, 2006).

# **CHAPTER – III**

## **RESEARCH METHODOLOGY**

### **3.1 Research Design**

The research design is exploratory in nature. In order to make a study more reliable and accurate, it is necessary to prepare a systematic framework for conducting research. In the word of H.W. Boyd, R. west fall and S.F. Stasch, "every research project conducted scientifically has a specific framework for controlling data. This framework is called research design. It's function is to ensure that the required data are collected and they are accurately and economically.

The fundamental purpose of this research study is to examine following aspects.

- a. To study the trends of Nepalese woolen carpets export to overseas markets from the period of 1993/94 – 2006/07.
- b. To identify the major problems for export promotion of carpet in Nepal.
- c. To analyze the impact of carpet export in the National economy.
- d. To forward the needful recommendation to the concerned stakeholders.

### **3.2 Sources and Collection of Data**

The purpose of any research are to gather information which helps to identify the problems and opportunities; to determined dimensions and magnitudes of the issues involved; to evaluate the alternatives; to select the proper course of action; we must analyzed the facts and about related subject.

The present study is based mainly on secondary data, while gathering secondary data, the relevant national and international sources have been used for the purpose of satisfying the need of this research study. They are:

- i. Economic survey.
- ii. Trade promotion center.
- iii. Nepal overseas trade statistics.
- iv. Nepal Rastra Bank.
- v. Nepal carpet exporters association.
- vi. Carpet and wool development board.
- vii. Department of small and cottage industry.
- viii. Central Bureau of Statistics (CBS).

### **3.3 Tabulation and Analysis**

Tabulation and analysis of data are the processes where by raw data are transformed into the information call for in the research study. The present study, as stated earlier, is based on secondary data. The data and information are taken through interview and general discussion. The data collected and compiled have been suitably recorded and tabulated with the help of suitable statistical tools. The statistical tools and techniques employed heavily throughout the study are : percentage analysis, correlation and regression analysis, charts and diagrams, and percentage and ratios which are heavy useful when two or more series of data are compared, they describe relationships and compare distributions, with a view to establishing relationship between two or more variables correlation analysis is made. Diagrams and charts give and overview of the whole mass of statistical data.

### 3.4 Statistical Tools and Variables

Simple statistical tools have been used to analyze the data. The variable used are as follows.

- i. **Price Index** : A ratio expressed as a percentage of prices in the given year to price in the base year.
- ii. **Real Exchange Rate** : Real exchange rate is the relative price variable in a single supply and demand analysis is which the quantity of real dollar demanded or supplied is expressed as a function of it's real price in other words, RER reflects the prices of a real dollar (representative foreign currency measured in Nepalese rupees).

$$\text{RER} = \frac{E_n}{P_d \times P_w}$$

Where,

$P_w$  = Deflator for the US dollar

$P_d$  = Domestic Price deflator

$E_n$  = Nominal exchange rate.

- iii. **Gross Domestic Product (GDP)** : It refers to the market price of the total flow of goods and services produced by Nepal over a specified period of time normally a year. At is obtained by valuing out puts of goods and services at market prices at should be noted that all inter-medial goods are excluded and only goods used for final consumption or investment are included.

### 3.5 Data Analysis

Simple linear regression analysis includes the regression equation with only one independent variable if two variables say  $x$  and  $y$  are linearly related and  $y$  is a linear function of  $x$ , then the regression equation of  $y$  and  $x$  by formulated as :

$$y = a + bx$$

$y$  = dependent variable

$x$  = independent variable

$a, b$  = regression parameters

Where,  $a > 0$  is the constant and  $b$  is regression coefficient.

#### Multiple Regression Analysis

The regression equation with more than one independent variable is called multiple regressions. Therefore, general form of multiple regression equation is :

$$y = f(x_1, x_2, \dots, x_n)$$

or, 
$$y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \dots + b_nx_n$$

It should be noted that the relation between the dependent variable and independent variable, is a linear one.

#### Coefficient of Determination $R^2$

The R-square ( $R^2$ ) statistic measure the successes of the regression in predicting the values of the dependent variable within the simple  $R^2$ . It is fraction of the variance of the dependent variable explained by the independent variables. The statistic will equal one, if the regression fits perfectly; and zero, if it fit no better than the simple mean of the

dependent variable; it can be negative, if the regression does not have an intercept or constant or if the estimation method is two stage least squares.

It shows the percentage of the total variation of the regressed variable that can be explained by the regressor variable.

$$R^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

$$0 < R^2 < 1$$

The higher the value of  $R^2$  the better is the fit.

### **Adjusted Coefficient of Multiple Determination ( $R_{\text{adj}}^2$ )**

This measure will also be employed to get additional information about the goodness of fit. One problem with using  $R^2$  as a measure of goodness of fit is that the  $R^2$  will never decrease as more regressors are added in the extreme case. It can always obtain the  $r^2$  if you include as many independent regressors as there are simple observations. This adjusted coefficient is commonly denoted as  $R_{\text{adj}}^2$ . It penalizes the  $R^2$  for the addition of regressors which do not contribute to the explanatory power of the model.

The use of additional explanatory variables in the function leads to the rise in the value of coefficient. To take account of this ( $R_{\text{adj}}^2$ ) the adjusted coefficient of multiple determination is used.

The expression will be given as :

$$\begin{aligned} R_{\text{adj}}^2 &= 1 - \frac{\text{ESS}/\{h - (k - 1)\}}{\text{TSS}/(n - 1)} \\ &= 1 - \frac{\text{Error Sum of square}}{\text{Total sum of square}} \\ &= 1 - (1 - R^2) \frac{(n - 1)}{(n - k - 1)} \end{aligned}$$



Here,

$R_{adj}^2$  = Means the adjusted  $R^2$

n = Number of observations

k = The number of independent variables

### **Standard Error of Estimates (SEE)**

Standard error of estimates (SEE), like standard deviation, measures the reliability of the estimating equation and estimating coefficient. The larger the SEE, the greater happens to be the dispersion, of scattering of given observations around the regression line or (coefficients) and no better the estimates. On the other hand, the smaller the value of SEE, the better will be the regression line (coefficients) and the better the estimates based on the equation for this line. With the help of SEE, it is possible to ascertain how good and representative the estimated regression line (or, coefficient) is as a description of the average relationship between two series. For this study the SEE for regression coefficients has been calculated by using computer.

## **CHAPTER – IV**

### **ANALYSIS AND INTERPRETATIONS**

#### **4.1 History of Nepalese Carpet**

Nepal have preserved centuries age. Old traditional living culture of artistic trade production of thangka printing, wood, bronze, metal stone, sculptures and Nepali carpet Radi-Pakhi. The art of weaving is an old tradition in Nepal. Inhabitants of hill and mountains of Nepal have been traditionally producing local variants of carpet – called Radi and Pakhi which are even today famous amongst not only the Nepalese but also quite many foreigners.

The commercial production of carpet in the kingdom of Nepal started from 1960 onwards. This is the year when the Tibetan refugees who fled into Nepal started making carpets for their livelihood. As the number of migrating refugees increased, refugee camp were set up in Nepal. In many of these camps carpet weaving was introduced to provide a livelihood for the refugees. The increasing demand for carpets among tourists and other foreign consumers was the final catalyst, which forever changed the design and the production of carpets in Nepal. With time as a complete handmade product, it made itself a special place in the carpet market and its popularity started to grow and became the latest fad in the international carpet scene. Today, the quality raw material used in it, its unique design and exotic color matching facility are some of the features of Nepalese carpet.

The Nepalese-Tibetan carpets contain a very high degree of hand processing and quality ranging from 60-150 knots per square inch.

Regularity safe guards are in place to insure that only highest quality fleece wool is imported for use in these carpets.

Buddhism basically influences the traditional design of the Nepalese-Tibetan carpets but in recent years the Nepalese manufactures have introduced modern design and colors in line with the present day market tastes. A wide range of sizes from 0.25 m<sup>2</sup> has replaced the traditional size to 56 m<sup>2</sup> and in shapes such as round, octagon, and customers shapes. The desired designs, styles and shades are the creation of local designers and engineers with regular feedback from the market. At present, 95 percent of the production of carpet is concentrated in the Kathmandu valley with the remaining 5 percent spreading over a number of other districts of the country.

In 1959, many Tibetan refugees entered Nepal bringing with them their carpet making skill. This carpet weaving technique was exploited by the international red cross and SATA (Swiss Association of Technical Assistance Program) by establishing the Jawlakhel Handicraft center in 1960. This organization, which initially started as a carpet weaving center for Tibetan refugees, mostly women, laid the foundation for the carpet industry in Nepal.

Carpet weaving became a commercially viable industry with the financial and marketing support of the Swiss red cross. The carpet weaving workshops established in many other areas of Nepal (Chaila, Pokhara, Dhorpatan etc.) guaranteed the economic existence of the Tibetan refugees to a certain extent. The first mearge export of Nepalese carpet was made in 1962 to Switzerland, and since then the western market for Nepalese carpet has grown at a steady rate.

The carpet industry, for the initial few years from 1960's employed mostly the Tibetan refugees. The Nepalese carpet was introduced to the international market in the early sixties. However, the late 1960s and early 1970' many sectors entered the carpet business. The rapid growth of the Nepalese carpet industry during seventies and eighties has been attributed to the creative private entrepreneurs of Nepal who are quite capable of transforming art object into commercial products. Their innovative abilities in blending Tibetan weave western designs have brought the success for penetrating into a very competitive western market, one of the main reasons for the success of the Nepalese carpet in these market. It has been introduced as unique product of new touch, 100 percent hand made double knotted, class and quality of its own (Carpet Bulletin, 2000). In mid 1980s in the fiscal year 1992/93 carpet became a number one export commodity of our century, nation's 60 percent sharing in the total foreign currency earning from abroad exports.

## **4.2 Export Scenario of Carpet**

Export plays a significant role in the economic development of country Nepal. Export trade has traditionally been regarded as an important vehicle for economic development. Export promotion is the only strong and dependable alternative for a developing country like Nepal in order to boost the rate of economic development. The export sector must be able to earn enough foreign exchange so as to give solid contribution to the national economy and contribute meaningfully to the growth in production and employment, maximum mobilization of internal resources, promotion of industries and other fruitful investments, equal distribution of national income etc.

Nepal's foreign trade was virtually controlled by India till 1960. India then used to control the reserves and receipts of Nepal foreign exchange through the treaty of trade and transit 1950. Nepal could not proceed towards the commodity-wise and country-wise diversification of foreign trade in 1960's although it has adopted a new policy of overseas export and import in 1957. The imports from India and other overseas countries were rising at a very faster rate and exports have never been able to overcome imports. The problem was further aggravated by the trade and transit issue between Nepal and India in March 1989 and demanded proper attention to the problem.

The attention is to be focused on the ever increasing export gap. The gap in the export of carpet in the fiscal year 2004/05 had been at US\$ 82.93 million which reach about US\$ 79.36 million in the fiscal year 2006/07.

Traditionally, Nepal is the exporter of primary products based on agriculture and forest at still remains the supplier of raw materials to the Indian industries. The relevant data, now reveals that Nepalese export is gradually shifting from primary products to manufacturing products. In other words the share of manufacturing products has shown rising tendency. They are mainly carpets, readymade garments and handicrafts. The decline in agricultural productivity together with a high rate of population growth and traditional method of arming have resulted in reduction of exportable agricultural surplus.

The pattern of growth of the manufacturing sector, however, has not contributed significant connected with a few destinations. The ten countries viz. : Germany, USA, Turkey, United Kingdom, Switzerland, Belgium, Netherlands, Austria, Italy and Canada at may be more 94

percent of total export. These above are the Top ten world carpet importers from Nepal during FY 2005/06.

Nepalese hand knotted carpet is one of the major export items and sources of foreign currency and employment and income generation for rural as well as urban people. Nepal exported 3.3 million sq. meter of carpet in the fiscal year 1992/93. At that time the sector had given direct employment to 500 thousands people and indirect to 1.2 million rural youths. But the succeeding years have been showing perpetual decline in the volume of the carpet export. In the fiscal year 1992/93 Nepal exported 3.3 million sq. meter of carpet and it has decreased 1.66 million sq. meter in the FY 2004/05 and decreased to 1.34 million sq. meter in the FY 2006/07.

### **4.3 Importance of Carpet Export Industry in Nepalese Economy**

Broadly speaking Nepalese economy is an underdeveloped economy where there are numbers of problems. Among these problems underemployment and adverse balance of payments are major problems of the economy which (compels) hinders the country to run in the path of development and the country never can escape from the vicious circle of poverty. To solve these problems in the underdeveloped countries maximum volume of carpet export is necessary that reduces the unemployment and collect maximum foreign currency for the development of the country and it also play the role in the balance of payment. For the expansion of export, industrialization is necessary. But in these countries industries can not flourish, due to lack of capital lack of technological man power, and lack of industrial infrastructure.

The growth of carpet industry had made positive impacts in both employment generation and in balance of payment due to heavy volume of carpet export to abroad which was the main obstacles of Nepalese economy but now the FY 2006/07 it's trend has declined and the volume or quantity of carpet export has declined to only 1.34 million which as advances effect in the balance of payment. It has not provide more job opportunities to the Nepalese people as earlier. The main reasons for the decreasing in carpet export is due to lack of good technology used in carpet production, lack of market expert to compete the product in global market and also due to the internal strike. Each and every process or stages are extremely labor intensive technique.

Carpet industry has helped not only to solve the unemployment problems but also helped to solve the problem of under employment and disguised unemployment to some extent. Nepal being agricultural country, there always seems seasonal unemployment. Such labors from agriculture can get employment in carpet industry. Again the ratio of man and land is very high in our country. Hence the productivity of the agriculture labor is minimum. So, this over crowded labor in agriculture sector can be reduced by transferring the labor from traditional sector to modern sector. This industry has not only raised the income of the lower class but also has given chance to emerge the other industry.

The main positive impact of the carpet industry is to help to solve the problem of adverse balance of payment to some extent. Now this industry has surpassed even the tourism industry in earning the foreign currency carpet industry also helped to increase in foreign exchange reserve year after year. It was a new economic record in the history of Nepal that has such abundant foreign exchange reserve in the FY 1991/92, that the Dollar felt against Nepalese rupees.

Thus, it has made significant contribution not only on the economic upliftment of the country but also on the social progress of the people through employment generation. It is the major foreign currency earning industry. Its contribution in the total overseas export of the country is more than 50 percent the earning from the export of carpet was Rs. 5.60 billion in the FY 2006/07. This industry has brought substantial rewards and prosperity to the workers.

#### **4.4 Direction of Foreign Trade**

Economical and technological activities are changing rapidly day by day. No any country can remain isolated from others. Development of any nation is not possible without trade and every nation is directly or indirectly dependent upon one another in trade. Trade plays a key role in economic development of a country. It is fact that economic advancement greatly depends upon the development upon trade since the foreign trade has great contribution to the industrialization of a nation. The foreign trade is concerned with exchange of goods and services from a businessman or organization of one country to another country. Buying and selling of goods and services by traders of different countries is called foreign trade. Today the work is going rapidly in changing environment and it is so interrelated that if any event take place in one country effects the another country. Likewise if the foreign effects the another country. Likewise if the foreign trade of any country highly develops its capital accumulation will naturally increases consequently more investment locals to more employment opportunity which is the positive sign of overall development.



During the fiscal year 2006/07 total exports Rs. 60795.8 million and total imports Rs. 191708.8 million. The trade balance in the FY 2006/07 is Rs. (-130913.0) i.e. deficit trade balance.

During the FY 2006/07, trade export has increased by 0.92 percent which has performed better than the corresponding period of FY 2005/06. Export to India rose notably in FY 2006/07 reaching 68.9 percent of total exports as compared to 67.6 percent in FY 2005/06 while the exports in another countries other than India has declined. In the FY 2006/07, total export is Rs. 18921.0 million but in 2005/06 total export was Rs. 19519.4 million. However, it is seen that in the total volume of trade, the share of export 24.1 percent and share of imports 75.9 percent in the FY 2006/07.

Exports to India during the fiscal year 2006/07, totaling Rs. 418781.8 million and import totaling Rs. 117740.4 million. According to the data it can be seen that, in the FY 1998/99 the total export to India was 35.1 percent and other than India was 64.9 percent, but in the FY 2006/07 total export to India 68.9 percent and other than India 31.1 percent. Comparatively, in the other countries export increased to India by 33.8 percent from the FY 1998/99 to 2006/07. Major items that recorded such increase were mainly Banaspati Ghee, other threads, textiles, polister yarn. GI sheets other wires, juice, snakes. However, the export of GI, sheets, readymade garments, chemicals declined during the FY 2006/07.

Third country exports in the FY 2006/07, totaling Rs. 18921.0 million which is 31.1 percent in the total exports, declined by 33.8 from the fiscal year 1998/99 to 2006/07. This sharp fall in third country exports during the period of 2006/07 has been mainly due to GI sheets, readymade garments and GI pipes. The exports of tooth paste and plastic

utensils also declined 9.22 percent and 46.64 percent respectively during this period. The exports of woolen carpet also decreased by 4.08 percent in the FY 2006/07.

Total imports during the FY 2006/07 increased by 9.35 percent and limited to Rs. 191708.8 million in comparison to FY 2005/06 limited to Rs. 173780.3 million. Imports from India in a increasing trends from the FY 2001/02 to 2006/07. However, decreased in FY 2000/01 by 7.17 in the corresponding period of previous fiscal year. Imports from third country declined substantially by 63.4 percent, 60.9 percent, 47.3 percent, 43 percent, 42.2 percent, 40.7 percent, 38.3 percent, from the FY 1999/00 to FY 2005/06. Imports from India in the FY 2005/06 has increased by 2.4 percent in the companion of corresponding pervious year. During the period, mainly the imports of goods like Diesel, Kerosene, Transport vehicles and spare parts, petrol, medicine, LP gas, chemicals, electric equipments.

Imports from other countries during the FY 1998/99 to 2005/06 had declining by 63.3 percent to 38.3 percent, as totaling Rs. 55405.6 million to 66637.2 million. Here Flat value in amount shows the increased but in a share of market imports shows decreased, shown above. Main reason for such substantial decline in imports in attributable to decrease in imports of industrial raw material and textiles during the review period. Imports unprocessed soyabean, unprocessed palm oil, yarn plastic granuals, unprocessed wool, lubricant tyres and tubes, flaps electronic equipments and goods aircraft spare parts, chemical fertilizer, insecticides, agricultural tools, textiles, cosmetic, paper shoes and slippers. Other machinery parts other than India as decreased during the review period of 2006/07.

## **4.5 International Trade Situation of Nepal**

During first eight months of the FY 2006/07, the overall trade balance of the country remained unfavorable the deficit of balance of trade has increased by 2.00 percent from the first eight months of FY 2005/06 to 2006/07. Data shows the balance of trade deficit has increased continuously from FY 1998/99 to 2006/07. In the FY 2005/06, the trade deficit balance was Rs. 732165.3 million and in the FY 2006/07 Rs. 74705.6 million, this is 2 percent increased in a one year period so, there is not favorable trade condition of Nepal.

During the review period, the total export to India Rs. 27762.9 million and imports from India Rs. 72125.0 million. Here trade deficit from India Rs. 44362.1 million i.e. 61.5 percent in the first eight month of FY 2006/07. In the same way, total export to other than India Rs. 12222.7 million and imports Rs. 42566.2 million. Here trade deficit from the country other than India Rs. 30343.5 million i.e. 71.28 percent in the first eight month of FY 2006/07. Total trade transaction has also decreased from FY 2005/06 to 2006/07 by 2.60 percent.

## **4.6 Carpet Industry and Employment Generation**

Carpet industry did not have a significant role in Nepalese economy until mid-sixties. The highlanders used to weave carpet for their own needs and sell only on surplus. The buying and selling used to be carried in their localities; latter on they came down to market areas with carpet for sell.

In the early sixties, in order to provide economic substances to the refugees in Nepal, the Swiss government provided financial, technical and marketing assistance for the development of carpet industry. For the

employment generation programmed carpet weaving was the best viable activities. They could promote in quality and design. It promoted and introduced Nepalese carpet in European market. Therefore, Nepalese government and entrepreneur realized its exports potentiality.

Nepalese carpet industry is backbone of Nepalese economy. It is the highest employment generator, particularly to the rural people who are illiterate or who are deprived of education, as well as the major foreign hard currency earner. The export of Nepalese carpet has spread over 40 countries out of which, Germany, USA, Belgium, Britain, Turkey, Switzerland, Japan, Spain, Canada and Italy are the leading exports markets. Among there, first two are the biggest export markets. Germany alone absorbs more than 45 percent of the total carpet exports.

In the FY 2001/02, total carpet industry in Nepal was 239, where 124 was located in different VDC, and 115 located in municipalities. Total number of people engaged in carpet industry was 18514 and number of employed was 17984. In the FY 2006/07 total carpet and rugs industry increased to 321. Total number of people engaged 17024 and total employed are 16568.

As carpet has remained one of the major sources of foreign currency earning for the country and one of the biggest employment generating industry, market promotion of the carpet can have direct and positive effect to the economic development and poverty alleviation program in the country at large. Among the major items of exported commodities, woollen carpet has the high share than other commodities. In the among them the value of carpet export is 5600.2 million i.e. total 29.60 percent of the share of carpet.

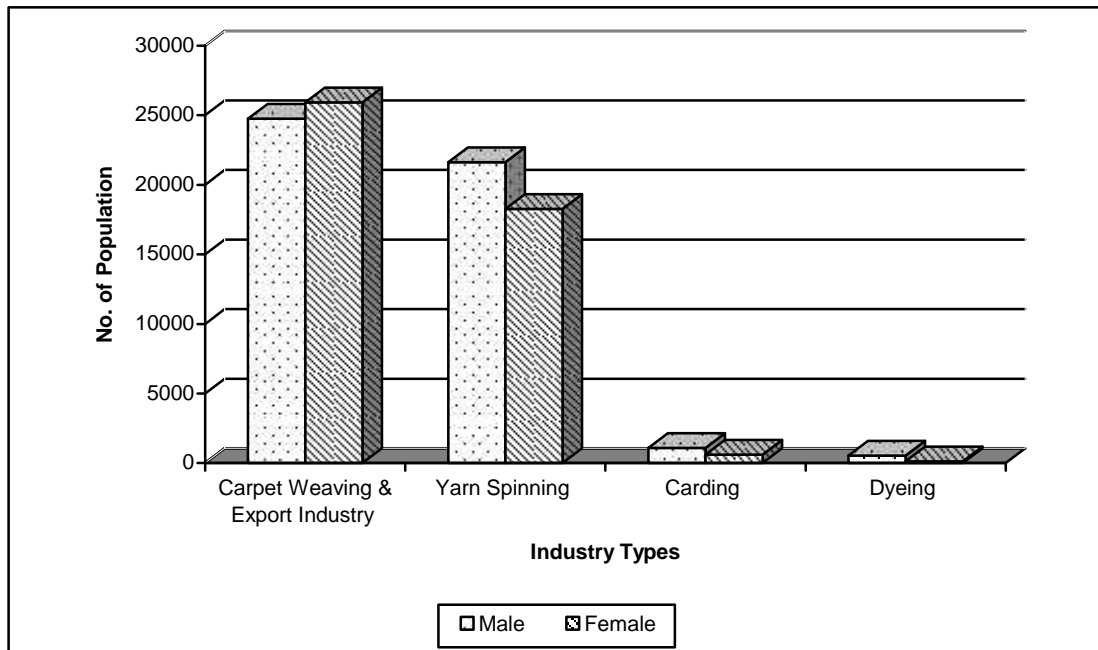
**Table 4.1**  
**Employment Status in Carpet Industries**

Industry type	Employment			Percent
	Male	Female	Total	
Carpet Weaving & Export Industry	24753	25917	50670	54.55
Yarn Spinning	21622	18262	39884	42.93
Carding	1085	601	1686	1.81
Dyeing	541	121	662	0.71
Total	48001	44901	92902	100.00

Source: Business Promotion and Research Center (BPRC), 2005.

As carpet has remained as one of the major sources of export earning for Nepal and one of the biggest employment generating industry, market promotion of the carpet can have direct and positive effect to economic development and poverty alleviation program in the country at large. The satisfactory export growth in terms of quantity and value proves that the both quality and price of Nepalese carpet have been linked by the world wide customers.

**Figure 4.1**  
**Employment Status in Carpet Industries**



Source: Based on the Table 4.1.

## 4.7 Export of Carpet from Nepal

After the first commercial export to aver ease country in 1964, a revolutionary time in the history of carpet production was opened in Nepal. Many manufactures and exporters were born and due to their hard working and continuous development efforts in collaboration with overseas importers, in the areas like designing and promotional activities, export has shown steady growth during the last three decades. The industry has doubled in numbers in the past three years and continued to 20 percent to 30 percent growth per year in expected. One of the vital cause for the fast growth of carpet industry in that the total production is exported to international market mainly to the western market.

Nepalese hand knotted carpet was one of the major export items and sources of foreign currency, employment and income for rural women till one decade back, when Nepal exported 3.3 million square meter of carpet a year. The contribution made by carpet industry in the national economy is remarkable. Nepal used to stand in third position after Iran and India in carpet export business of the world.

**Table 4.2**  
**Handmade Carpet Exports from Nepal**

Fiscal Year	Quantity in m <sup>2</sup>	Value in US \$	Change in Value %
1993/94	3328000	179712000	-
1994/95	2744000	148176000	-14.54
1995/96	2623000	131150000	-11.49
1996/97	2890000	156060000	18.99
1997/98	2415000	130410000	-16.44
1998/99	2604469	149097806	14.33
1999/00	2509452.43	142365151.58	-4.52
2000/01	2242692.93	117466682.64	-17.49
2001/02	1693196.75	81655133.01	-30.49
2002/03	1566950.17	68089183.68	-16.61
2003/04	1617766.51	75288842.36	10.57
2004/05	1664117.71	82929229.83	10.15
2005/06	1484484.52	79745809.81	-3.84
2006/07	1341757.00	79375420.00	-0.46

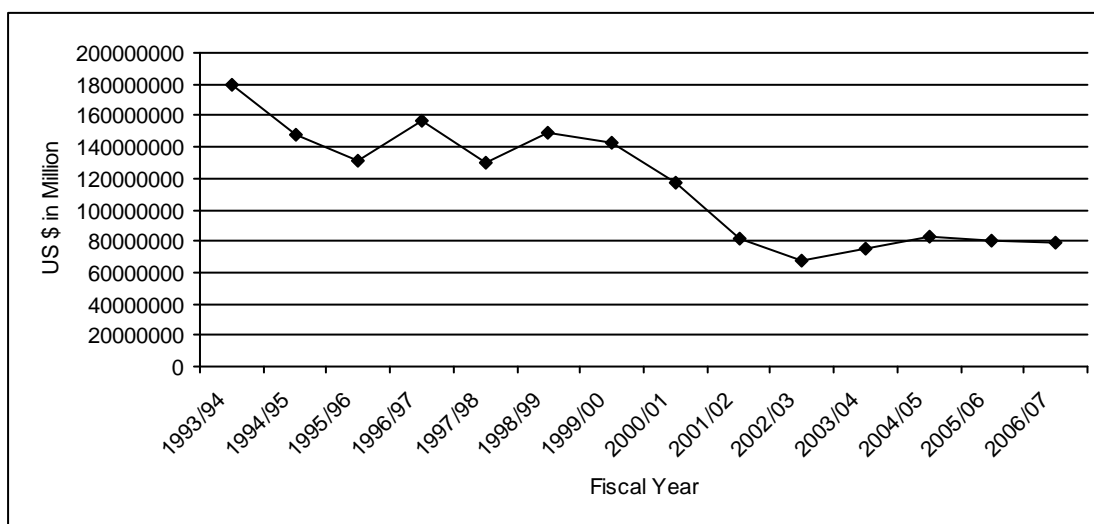
Source: Trade and Export Promotion Center, Nepal.

From the above table, we see that in the FY 1993/94 the total carpet export was 3328000 square meters and it earned about US\$ 179712.00 thousand. During the FY 1994/95 total export of carpet

decreased by 17.54 percent of the previous year. In the FY 1995/96 carpet export also decreased by 11.49 percent of previous year but increased by 18.99 percent in the FY 1996/97. In the FY 1993/94, Nepal exported 3328 thousand square meter of carpet which is highest in comparison to other fiscal year.

In the FY 2003/04 the total carpet export was 1617.766 thousand m<sup>2</sup> and earned about US \$ 75288842.36. During the FY 2003/04 to 2004/05 the total export of carpet could not increase satisfactory which was due to some obstacles created by various environment. The main obstacles inside or outside the country was the use of child labour, quality of Nepalese carpet, strikes, look out and the competition in the world market. In the FY 2005/06 and FY 2006/07, the carpet export decreased by 3.84 percent and 0.47 percent continuously. Export of carpet from Nepal is presented.

**Figure 4.2**  
**Handmade Carpet Exports from Nepal**



Source: Based on the Table 4.2.



## 4.8 Carpet Export from Nepal by Destination

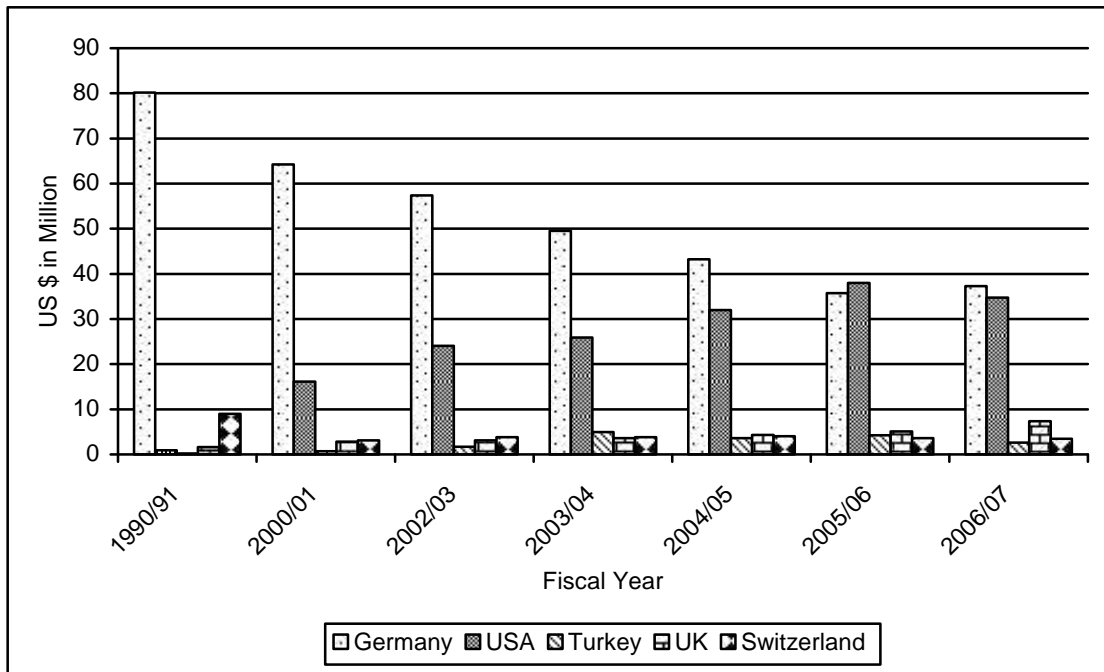
Nepalese carpets are mainly based on European markets and exported to more than 50 countries. However, the principal buyers are Germany, USA, Turkey, UK, Switzerland, Belgium, Netherlands, Austria, Italy, Canada and other remaining several countries. The carpet export has now been diversifying which is indeed a positive indication to sustain and even increase the export abroad. The market of Nepalese carpet is majority based on Germany. The table below shows the carpet export by destination from Nepal.

**Table 4.3**  
**Carpet Export from Nepal by Destination (in %)**

Countries	Year	1990/91	2000/01	2002/03	2003/04	2004/05	2005/06	2006/07
Germany		80.15	64.26	57.37	49.54	43.21	35.72	37.28
USA		0.92	16.16	24.07	25.93	31.97	37.98	34.77
Turkey		0.21	0.74	1.68	4.92	3.58	4.27	2.65
UK		1.65	2.85	3.12	3.64	4.34	5.10	7.38
Switzerland		8.98	3.09	3.84	3.81	4.04	3.63	3.44
Belgium		3.54	4.22	3.80	3.96	4.62	4.14	2.84
Netherlands		1.11	2.26	2.79	2.51	1.73	1.81	2.32
Austria		-	1.25	0.57	1.07	1.32	1.31	2.54
Italy		0.20	0.38	0.26	1.54	1.83	2.62	2.39
Canada		-	1.01	1.30	1.64	1.75	2.17	2.90
Other		-	3.75	1.20	1.44	1.62	1.26	1.49

Source: Compiled by Revenues and Information of FNCCI from Trade and Export Promotion Centre, Nepal.

**Figure 4.3**  
**Carpet Export from Nepal by Destination (in %)**



Source: Based on the Table 4.3.

Among the top ten carpet importing countries Germany is the top from very beginning of the history of carpet export of Nepal.

From very beginning, Germany has been a very important market for Nepalese market. About 64.26 percent of total carpet was exported to Germany in FY 2000/01, it was 57.37 percent, 49.54 percent, 43.21 percent, 35.72 percent and 37.28 percent in the FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 respectively. The growth rate was higher during the period FY 1983 to FY 1993. In the FY 1990/91, the share of total carpet imported by Germany was the highest i.e. 80.15 percent. Growth rate has decreased from FY 2002/03 to 2005/06 continuously. Export to USA, UK, Turkey and Switzerland were 37.98, percent, 4.27 percent, 5.10 percent and 3.63 percent respectively in the

FY 2005/06. In the FY 2005/06 USA became the highest importer of Nepalese carpet.

Nowadays, USA has become the second position to improve Nepalese carpet. From the FY 2002/03 to 2005/06 export of Nepalese carpet increased continuously to USA by 24.07 percent, 25.93 percent, 31.97 percent, 37.98 percent respectively. But in the FY 1990/91, the carpet export to USA was only 0.92 percent only. Export to UK continuously increased from FY 1990/91 to FY 2006/07 by 1.65 percent, 2.85 percent, 3.12 percent, 3.64 percent, 4.34 percent, 5.10 percent and 7.38 percent respectively. In the fiscal year 2005/06, Germany became the second biggest exporting market of Nepal USA became the first position to import Nepalese carpet.

Export of Nepalese carpet to other counties also have several ups and downs. There are some new potential markets where Nepali exporters could introduce their products.

#### **4.9 Germany a Leading Importer of Nepalese Carpet**

Knowledge of carpet making and typical designs are the things that have made Nepali carpets popular in Europe. The rugs are designed and made in the oldest carpet tradition in the world. In addition, they have a unique look and their collections can not be compared with that of any other country in the world. Nepali carpets still have about 25 percent of the market share in Germany. Nepalese carpets are still the first choice of Germans.

Among various tradition, Nepal is traditionally known as carpet exporter. Germany is in the top importer of Nepalese carpet since the FY 1978/79 being the Nepalese carpet unique, qualitative and hand knotted.

Broadly speaking Nepal's Tibetan carpets are rare which are of better quality than any of the world. Hence, these quality encouraged Germany to import Nepalese carpets. The statistics of carpet export to Germany from Nepal is shown under by table.

**Table 4.4**  
**Carpet Export to Germany from Nepal**

Fiscal Year	Quantity (in m <sup>2</sup> )	Value in US \$	Total Value from carpet export in US\$	% share of Germany
1994/95	2298825	120126283	148176000	81.07
1995/96	2111886	105260990	131150000	80.26
1996/97	2321656	123802398	156060000	79.33
1997/98	1898104	98720370	130410000	75.70
1998/99	1970548	110705121	149097806	74.25
1999/00	1840060	92708186	142365151	65.12
2000/01	1552498	75584417	117387834	64.39
2001/02	1088196	47694691	81655154	58.41
2002/03	994287	37227789	68089183	54.68
2003/04	901123	35811355	75288842	47.57
2004/05	827213	33671199	82929229	40.60
2005/06	671987	28088067	79745809	35.22
2006/07	613268	27344690	79375420	34.45
2007/08	455528	24006224	84864737	28.29

Source: Trade and Export Promotion Center, Nepal.

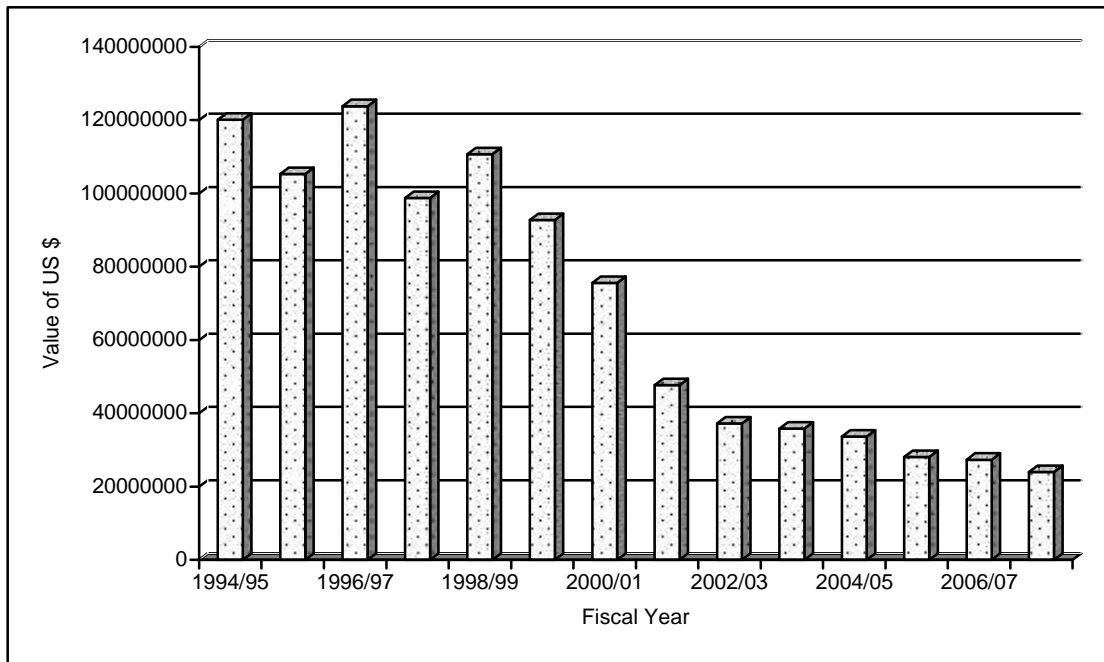
If we try to see the gravity of the History of carpet export to the foreign countries through the above statistics, we can conclude that the share of value received from the carpet export to Germany to the value received from total carpet export is in decreasing trend. In the FY 1994/95 the carpet export to Germany was 2299825 m<sup>2</sup> and the

percentage share to the total export of carpet was 81.07 percent. The percentage share of carpet export to Germany was slightly decreased in the FY 1995/96 by 80.26 percent. The trend of carpet export to Germany is in decreasing trend until FY 2007/08.

In the FY 2000/01, the carpet export to USA, Belgium and Switzerland was 296056 sq.m., 88057 sq.m., 73052 sq.m. i.e. second, third and fourth position respectively. In the FY 2003, these three are also in the same position but in the FY 2007/08, USA, Turkey and Belgium respectively take 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> position by importing 337003 sq.m., 59432 sq.m. and 39987 sq.m. of carpet respectively.

In the fiscal year 2000/01, total carpet export to Germany was 1552498 sq. meter and its value US \$ 75584417 which was 64.39 percent of the value of total carpet export. In the FY 2001/02 decreased and become 58.41 percent only. It continuously decreased from the FY 1994/95 to 2007/08 and come to 28.29 percent of share in total export value in the FY 2007/08. In the FY 2007/08 percentage share of carpet export to Germany to the total carpet export was 28.29 percent which absolutely lower than all the previous year. The drastic erosion of carpet is big shock in export business of the nation. This decreasing trend of carpet export to Germany definite discourages the Nepalese manufactures and exporters.

**Figure 4.4**  
**Carpet Export to Germany from Nepal**



Source: Based on the Table 4.4.

#### **4.10 Market Share of Various Countries in Carpet Export to the European Union (EU)**

The major markets for carpet are Germany, the USA, Belgium, Turkey, Switzerland and United Kingdom. Looking at the export figures below from the major carpet exporting countries, India, Iran and Afghanistan have been increasing their export of carpets. The Indian carpet is competitive in the medium price and low price carpet. Nepal's position in the global carpet trade is fourth which takes around 8 percent (2005) of market share of European Union in carpets exports as volume and around 10 percent as on value. While India's share in volume is around 41 percent and around 25 percent by value and Iran's share is 17 percent as volume and 33 percent by value.

**Table 4.5****Market Share of Various Countries in Carpet Export to EU**

Quantity in square meter	2001	2002	2003	2004	2005	2006	2007*
Iran	3836134	3223481	2905728	2641945	2152427	1878139	776684
India	5032879	3997307	4455655	5857694	5369962	5697650	2730951
Nepal	1621518	1124872	1042524	1183567	995043	896898	382756
China	1049975	745952	1122978	447393	844530	1290572	507538
Pakistan	-	1594462	841607	1606250	1660827	1423324	700180
Afghanistan	128122	112238	54065	68451	45016	48951	10604
Morocco	471996	339024	327317	333534	304032	255068	117430
Turkey	707159	523038	645795	646465	979048	859285	640022
Tunisia	48432	21727	15064	24447	31565	37723	7908
Others	871896	563507	640757	504623	660933	600145	289791
Total	13768111	12245608	13051490	13314369	13043383	12987755	6163684

Source: European Carpet Importer's Association E.V.

\* Value for January to July 2007 only.

From the above table we see that, the trend of carpet import from Nepal to European Union (EU) in a decreasing from FY 2001 to 2003 i.e. the total decreased volume from 1621518 sq. meter to 1042524 sq. meter. In the year 2004, total carpet imported from Nepal 1183567 square meter which was the top year of Nepal to export comparatively other years, after 2004, it again decreased and come to 382756 sq. meter in the year of mid July 2007. It is because the Indian different price policy of carpet and capture maximum market share of carpet to EU.

#### **4.11 Carpet Export Compared to Total Export from Nepal**

Carpet export from Nepal is sharing more part of the total export of our country about 40 percent to 50 percent of Nepalese foreign currency

earnings are only depend upon the carpet export. From the prescribed data by trade ad export promotion centre we observed that total share export of wooleless carpet in value Rs. 5303238000 from the total export i.e. 30.8 percent share in the over seas export.

Nepal is one of the third major carpet exporter of the world. The success of the Nepalese carpet can be attributed to, or, the major reasons for the greater and increased demand of the carpet from Nepal include the high quality, better finishing, suitable design, and cheaper prices and main reasons are handmade. Some of the contributing factors to the uniqueness of Nepalese carpets are : the wool, the yarn spinning, the knotting, pile hight, knot density, dyes, aesthetic assortment of the colours and superior craftsmanship. Sources of satisfaction by Nepalese carpet also includes. Subjective criteria, technical criteria, economic criteria, adaptive criteria, integrative criteria, legalistic criteria. These above all factors make the Nepalese carpet to export more due to more demand from different countries of the world. The below's statistics shows the share of carpet export among total exports.



**Table 4.6**  
**Carpet Export Compared to Total Export from Nepal**

Fiscal Year	Total export in Rs. '000	Carpet export in Rs. '000	% share of carpet export
1993/94	19077495	9518055	59.89
1994/95	17681253	7703760	43.57
1995/96	19758388	8032232	40.65
1996/97	22861951	9144635	40.00
1997/98	27402244	8516345	31.08
1998/99	35826572	9885107	27.59
1999/00	49561028	10390538	20.97
2000/01	55245900	8603722	15.57
2001/02	47386788	6108636	12.89
2002/03	50011122	5317656	10.63
2003/04	53949414	5461400	10.12
2004/05	58443821	5961116	10.20
2005/06	59776874	5732285	9.59
2006/07	59073097	5619779	9.51

Source: Nepal Rastra Bank and Trade and Export Promotion Centre.

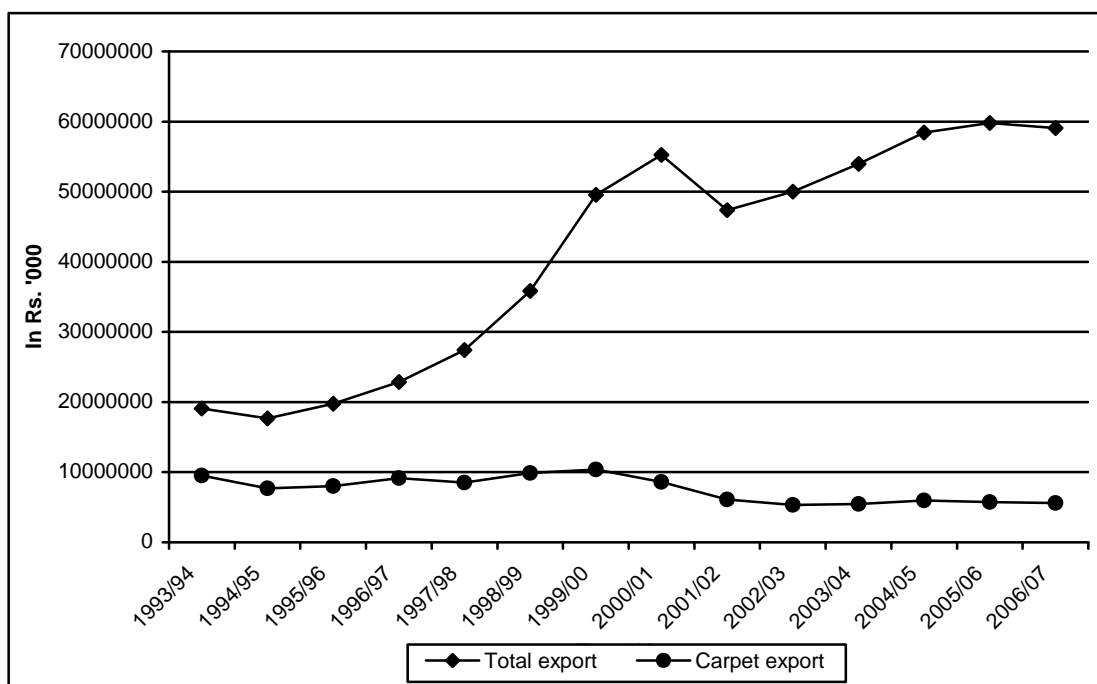
From the above table we can observe that during the period of FY 1993/94 the percentage share of carpet export to the total export 59.89 percent, it is the highest share of carpet export among the FY from 1993/04 to 2006/07. In the FY 1995/96 and FY 1996/97 the percentage share of carpet export was 40.65 percent and 40.00 percent respectively but in the FY 1997/98 it dropped down by 10 percent and became 31.08 percent only. The contribution of Nepalese carpet export in the total

international export was 12.89 percent in the FY 2001/02, but it was 10.63 percent in the FY 2002/03.1

From the FY 1993/94 to 2006/07 the contribution of carpet to the total export in a condition of fluctuation through it seems the percentage share of carpet export to the total export is decreasing but the total export amount is not decreasing. In the FY 2005/06 and FY 2006/07 the percentage share of carpet to total export 9.59 percent and 9.51 percent respectively. The reason behind it, the share of total export is started to increases by other commodities in the respective fiscal years, due to this the decrease in share of carpet export in total exported commodities. Another causes is that, there is criticism about Nepalese carpet in Nepal and outside, i.e. the alleged me of child labour not only this but other reasons are small scale industries can not produce heavy volume of carpets because of high cost price and low profit.

**Figure 4.5**

**Carpet Export Compared to Total Export from Nepal**



Source: Based on the Table 4.6.

## **4.12 Top Ten Carpet Trading Partners of Nepal**

Trade and commerce is key to the economic development of the country either developing or least developed countries like Nepal. We can reduce our trade deficit and help in our development effort through foreign trade. In today's world, the trade activities can not remained confined within the boundary of a country. The leading and dominating position of industrial as well as newly industrialized countries in the world export scenario has encouraged LDCs for prioritizing the export sector as an accelerator of economic prosperity and living standard of the people of the country.

The Nepalese carpets are exported to more than 28 countries between fiscal year 1995/96 to FY 2006/07. Major countries are Germany, USA, Turkey, Belgium, Switzerland, UK, Netherlands, Austria, Canada, France and Japan. Export trade of woollen carpet must be encouraged providing incentives as well as market information through exploring new market as well and solving the internal problems. We can reduce trade deficit and help in our development effort through foreign trade. The top ten country wise exports of carpet are presented below.

**Table 4.7**  
**Top Ten Carpet Trading Partners of Nepal**

Countries	FY 2005/06		FY 2006/07	
	Qnt. (in sq. m.)	Value in US\$	Qnt. (in sq. m.)	Value in US\$
Germany	671987	2808067	613268	27344690
USA	344151	26578016	337003	28958768
Turkey	99660	3797896	59432	2430483
Belgium	58908	3107907	39987	2234281
Switzerland	44957	2643317	46278	2769294
UK	64989	3986364	59340	4278343
Netherlands	30432	1443916	32002	1543746
Austria	35414	1370014	31632	1371466
Canada	22936	1669130	22324	1938062
France	10729	723203	7889	704328

Source: Trade and Export Promotion Centre.

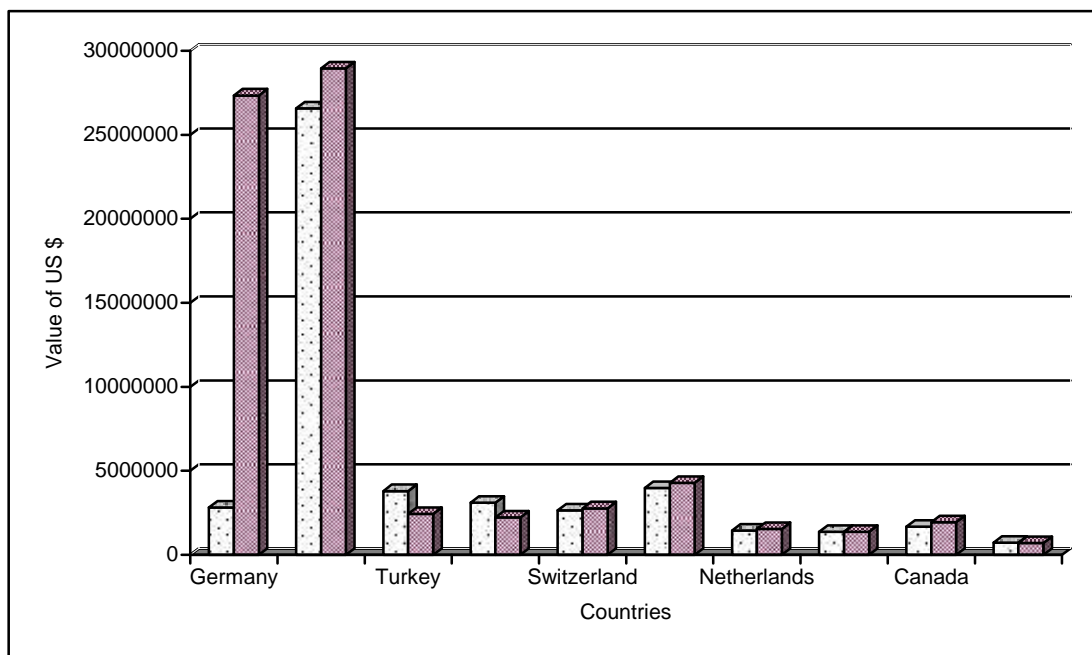
In the table above only 10 carpet trading countries are taken according to carpet exported to them. Nepalese carpet are exported to more than 30 countries of the world but export to Germany was 81.07 percent in FY 1994/95 and 28.29 percent in FY 2007/08 respectively. Table 4.7 shows the top ten carpet import of Nepal. In the FY 2005/06 and 2006/07, Germany the top first carpet importer among ten importer of the world but it has decreased by 9.6 percent in qnt. In FY 2006/07. USA the second carpet import from Nepal but it also decreased by 2.1 percent in FY 2006/07. Turkey the third importer and in the FY 2005/06 it imported 99660 sq. meter of carpet but in the FY 2006/07 imported only 59432 sq. meter i.e. 40 percent decreased.

In the FY 2006/07, the carpet export to Germany and USA, 613268 sq. meter and 337003 sq. meter respectively but in value US \$ 27344690 and US \$ 28958768 currency imported to Nepal. Here, quantity exported was more to Germany but currency imported was less than USA i.e. from USA currency imported US\$ 28958768 by exporting only 337003 sq. meter of carpet. Among top ten countries, France the top last country of carpet importer from Nepal, in the FY 2006/07 imported 7889 sq. meter of carpet with value US \$ 704328. Data shows, carpet export to Belgium, UK, Austria, Canada and France significantly decreased but in Netherlands it has increased in FY 2006/07 compared to FY 2005/06.

The main cause of decreasing carpet import to different above mentioned countries are, maximum child labour used in carpet industry, high price, no price discrimination in product and high cost in raw wool and materials.

**Figure 4.6**

**Top Ten Carpet Trading Partners of Nepal**



Source: Based on the Table 4.7.

### **4.13 Demand and Supply of Carpet**

The major task of exports and imports depends upon goods demand and supply trend. In normal view of demand and supply mainly depends upon the price, where remaining all other factors constraint. If price falls demand rise and if price rise demand falls. There is positive relation of supply and price and inverse relation with demand and price. The negotiation after price creates the equilibrium point, although the carpet demand and supply does not play vital role with price but another. Secondary components play a vital role. Especially, it depends upon quality, colour, style marketing performance, countries situation, entrepreneur's effectiveness, Government policies.

Both demand and supply factors affect the sale of the output of any industry. Decline demand of carpet in a major market like Germany may be attributed to factors such as market situation saturation, change in consumer taste, child labour issue, cheaper price from India and China etc. The supply side problem is that, Nepal imported raw wool from Switzerland by 80 percent and it may be costly. So Nepalese carpet industry has not capacity to supply the carpet in low price.

The table given below shows the 13 years supply trend of carpet export from Nepal to foreign countries.

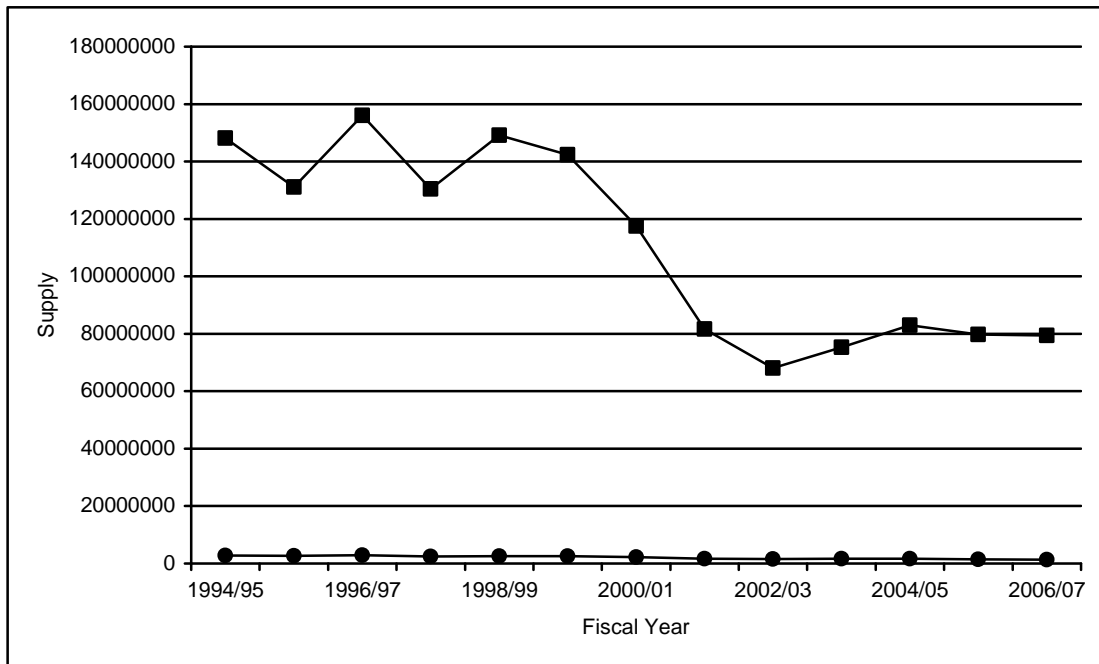
**Table 4.8**  
**Carpet Supply and Foreign Exchange Earning**

Fiscal Year	Quantity in m <sup>2</sup>	Value in US\$
1994/95	2744000	148176000
1995/96	2623000	131150000
1996/97	2890000	156060000
1997/98	2415000	130410000
1998/99	2604469	149097806
1999/00	2509452	142365152
2000/01	2242693	117466683
2001/02	1693197	81655133
2002/03	1566950	68089184
2003/04	1617766	75288842
2004/05	1664118	82929230
2005/06	1484485	79745810
2006/07	1341757	79375420

Source: Trade and Export Promotion Centre.

From the above table we see that, supply of carpet decreases from FY 1996/97 to 2002/03 and increases from FY 2003/04 to 2004/05 again it decreased and come to 1341757 sq. meter in FY 2006/07. The declining trend in carpet supply is also indicative of weakness. Some major factors that have influenced the decline include political unrest, low labour productivity, non conducive government policies and stiff competition from countries such as India, China and Iran with their increase share of the market.

**Figure 4.7**  
**Carpet Supply and Foreign Exchange Earning**



Source: Based on the Table 4.8.

#### **4.14 Export Status Towards America**

Export trend is declining but in the mean time exports to the USA is encouraging and is upcoming as a booming market for Nepalese carpet. Major share of Nepalese carpet export is directed towards western European countries, never the less the USA stands as a significant market for Nepalese hand made carpets. Exports of hand made carpets accounts for 25 percent of total export which stands as the second largest market during the running period.

Carpet made of natural Fiber with vegetable dye is most demanded in the US markets carpet exports to the USA is continuously increasing. Therefore, there is an enormous prospects of enhancing exports in the US markets. Promotional efforts need to be carried out in the US and



Canadian markets which will make remarkable impact on increasing exporting to these defined destinations.

**Table 4.9**  
**Export Status Towards America**

Fiscal Year	Quantity in m <sup>2</sup>	Value in US\$	% change in value
2000/01	296056	19841267	-
2001/02	273623	17469866	-11.95
2002/03	253984	16708307	-4.36
2003/04	275180	18275360	8.57
2004/05	357358	24835950	26.42
2005/06	344151	26578016	6.55
2006/07	337003	28958768	8.22

Source: Trade and Export Promotion Centre.

The exports figure towards America is positive exports trend from FY 2003/04 to FY 2006/67, by 8.57 percent, 26.42 percent, 6.55 percent, 8.22 percent respectively shows the sign of recovery of exports by exploiting American markets. If there is a collective efforts. For promotional activities the vast markets can be used in our favour.

From the above explanation we suggests that, the following action should be taken for improving exports:

- ) Labelling of Nepal label.
- ) Use of good quality raw materials.
- ) Promotion of carpet in new potential market.
- ) Diversify markets and products.
- ) Participate and disseminate Nepalese product in major trade fair and exhibitions.

J Politicizing of inherent characteristic and specially Nepalese carpet in international markets.

#### **4.15 Status of Employment in Carpet Industry (Macro and Micro Levels)**

Apart from being a major exportable item the carpet industry is equally important on account of its labour intensive nature. In its peak period of 1993/94, the sector was estimated to employ more than 5 lakhs direct labours, according to the data of Nepal carpet export association (2004). However the present, this industry is estimated to employ about 1.8 lakhs in FY 2006/07, because of maximum industry has shut down. A labour intensive industry like carpet is significant for the economy. Hand made carpet has unique characteristics in international market so maximum demand come from abroad and due to this economic condition is going improve but now always there is very difficulties to supply quality hand made carpet from Nepal on time. These causes may be strike, unionvied labour, due to labour involved in political activities, supply could not on time etc.

In the employment aspect carpet industry has been the largest employment generator industry, which has provided the job opportunity to more than 200000 people directly. This number is greater than all employees of all industrial worker of Nepal put together.

In the figure 8 and figure 9 there are only a little percent differences in employment generation at micro and macro level where as in national level, during the peak period of 1993/94 has been hold the 5 lakhs people are employed in this sector and declined gradually in FY 1995/96 and reached its low level at less than 2 lakhs in FY 2001/02.

While in micro level study there has not been such a condition whether macro level. Although the peak period of 1993/94 Kirtipur municipality has attained 900 employee and started to decline smoothly. Even in FY 2001/02 it has hold 460 employee. The decline percent age gap in two levels has seen a long.

The growth of carpet industry has made positive impacts in both employment generation and in balance of payment, but decline made two negative impacts in Nepalese economy as unemployment generation and dis balance of payment. The reason behind the industry being a largest employment generator is that there are several stages of production in carpet making process and each stages are characterised by labour intensive technology.

In the process of carpet weaving, first of all raw wool is washed in stream or using chemical then the washed wool is first carded then blended and spined. After that the spined wool is dyed (colored) either by traditionally or using dyeing machine. Then carpets are woven on a vertical loom made of wood or iron using dyed wools. The last stage of carpet making process is finishing and washing. Hence, in all these stages employment is generated and there value is added in every stage, which increases the national output. This industry has been not only the biggest employment generator but it has been able to absorb uneducated and poor sections of the population. So this is only the industry that has successfully employed people from the country. Hence the European and North American consumer who purchase Nepalese Tibetan carpet that makes a direct contribution to Nepalese quality of life. There is far greater self respect and pride in creating a work of beauty and particularly than there is in accepting a donation for hand-out, no matter how well intended it may be. Consumers who care about Nepal and its people

therefore make a worth while contribution to the country when they purchase quality handcrafted items such as carpets.

This industry has not helped only to solve the unemployment problem but also has disguised unemployment to some extent we know in our agro-employed because the character of agriculture is seasonal one in most of the agriculture labour can work in carpet industry. As the ratio of man and land is very high in this country, hence the productivity of the agriculture labour is minimum. So, these overcrowded labour in agriculture sector is reduced by transforming the labour from traditional (agriculture) sector to modern (carpet) sector. From the survey it has found that 70 percent of total carpet labours are from agriculture sector. Hence the carpet industry has enhanced to increase the productivity of the subsistence sector by reducing unemployment and under employment.

The carpet industry has not only raised the income of lower group people but also has enhanced the emergence the other industries. This industry has a number of forward and backward linkages, which help to operate other industries. First of all it has enhanced livestock industry. Since, Nepalese northern side is suitable habitant for woollen animal like sheep and yak. These farming will be benefited from the industry. If the country became self dependent in wool, there would be two advantages, first it saves the foreign exchange, which would be spent on importing wool. Second, it would help to increase the income of the remote area people.

Beside the live stock industry the carpet industry has helped to spawn a number of other industries like loom and spinning wheel production industries, construction industries, water supply (deed well

boring) industry, transportation industry and other several services industries.

#### **4.16 Labour Situation and their Financial Condition According to the Report of International Labour Organization**

According to the study of labour situation of Nepal, following facts have been found that the estimated numbers of labour are 56339, among them 7.9 percent are child labours, which should be replaced by matured skilled labour and remaining are in process of replacement. Also we found that average they work 12 hours in a day and their month average income are US\$ 29 per person per month. Family size of the each labours found 5.2 in average and mostly due to poor economic condition of the family, girls or boys of the family leave their home at the age of (10 to 14) years. Wages of the labours are categorized as per the quality of carpet in the factory they weave as NRs. 620/sq. meter for 60 knots quality, NRs. 1600/square meter for 100 knots quality.

#### **Data of Carpet Industry Founded by International Labour Organization Nepal (2005)**

Estimated total no. of weavers	56339
% of total child labour	7.9%
Average working hours per day	12 hrs.
Average monthly income	NRs. 2100
Average family size	5.2
Mean age at which left home	12 years
Average wages of the workers per square meters	
60 knots	NRs. 620
80 knots	NRs. 940
100 knots	NRs. 1600

Source: Nepal Rug Work Foundation (Interaction Program on Corporate Social Responsibility, 2005).

Almost every thing except labour and simple tools in carpet making has foreign component and its the main reasons to growth due to labour intensive character. The carpet industry does not any sophisticated technology or huge initial investment but need a large amount of labour inputs which the country has abundance. The wool used to make yarn is imported 20 percent from Tibet and 80 percent from New Zealand. The dyes and other chemicals used for carpet dyeing and washing are also imported from different European countries. A major amount of cotton used a base for carpet weaving and almost all of the machineries used during carpet production are imported from India. The Government and carpet manufacturers have given little though on reducing this dependency on foreign components.

Due to unique quality in carpet product helped in exporting heavy volume of quantity in seventies and eighties. According to the experts, Nepal's limited knowledge about particular system of knots, is one of the contributing factors for not being able to expand the market share in Europe and America. If that is so the Nepalese manufacturers and the exporters should explore the possibility of introducing other knotting techniques so as to compete in the global market.

#### **4.17 SWOT Analysis of Nepal's Accession to World Carpet Forum**

Nepal's participation in the forum is indispensable or not since the character has categorised Nepal as 'A' class member with the corresponding level of financial contribution to run the Forum. So, the main aim of SWOT is the analyze whether the Nepal's membership in the forum can be beneficial to Nepal. SWOT analysis has been presented with a view to facilitating the decision as to the question of Nepal's

accession in the world carpet forum. SWOT analysis is the combination of four different words as :

S = Strength

W = Weakness

O = Opportunities

T = Threats

### **Strength**

Nepal is one of the three major carpet exporter of the world. As per the data available, Nepal stands third after Iran and India as far as the export of the carpet in concerned. So, a world carpet forum without Nepal as a member can not be thought. During 1992/93 Nepal bet a export record of 3.3 million sq. meter carpet a year. However the record as such could not be maintained because of ever saturating market in Europe and limited market expansion initiative in still regarded as an exotic object of art and corresponding level of quality standard, Nepal's share in the world carpet shall always remain dominant. So, from this point of view, Nepal as one of the biggest exporters of hand made carpet should join world forum as one of the very active members.

### **Weaknesses**

As already mentioned about that Nepal exported 3.3 million sq. meter carpet in 1992/93. But succeeding years have been showing a perpetual decline in the volume of the carpet. Thus the total volume has been reduced to 1.6 million over the years. The main came of decline as such is not other than Nepal's failure to maintain quality on the one hand and to compete in price in the world market on the other hand. Less productivity consciousness, dependency on raw materials for carpet, export policy induced constraints, various fees such as GSP, certificate of origion, Rug mark, care and fair Ecotex, STEP, relatively higher income

tax in the earning from export and industrial insecurity, because of insurgency at home have made the cost of production of Nepalese carpet higher which ultimately has resulted in the constant erosion in the export volume. In this context, should Nepal participate in the world forum, Nepal would contribute as major donor to run such as world forum and the contribution as such shall naturally be from the carpet sector. So, as major donor Nepal can not participate in the forum as such since the sector is overloaded with various above mentioned fees. Financial condition as major donor shall erode further Nepal's price competitiveness in the world market.

### **Opportunities**

In international level, a lot of research, training, technology and improvement opportunities have been created for increase the productivity of and expanding the market for the hand made carpet. The governments of carpet exporting countries are taking various fiscal and non fiscal initiatives to make their products price competitive in the world market. Showed Nepalese carpet compete in the world market, Nepal should naturally learn from other carpet exporting countries and make its carpet export policy most progressive. From this point of view Nepal's accession in the world forum can be very much instrumental for strengthening the carpet sector. The opportunities the Nepal can have from its membership from the world forum will enhance Nepal's presence in world market as sound competitor and thus help sustain the existing market and exploring the new one.

In national level, Nepal can produce raw wool in the mountain area which directly provide the employment to the hilly people and from the other side we can save our currency from buying raw wool. As Nepalese



hand made carpet is the world recognized quality, then we can charge monopoly price and gain maximum foreign currency either in European or America countries.

### **Threats**

The world carpet market has been very much competitive. Only those applying new technology for reducing the cost of production and increasing productivity in carpet can survive. If Nepal remains a loof by not going into carpet comity of nations. Nepal can not make an effective policy lobbying both in national and international level for the promotion of its carpet that ultimately means the export of Nepalese carpet will further reduce and its market will be replaced by other carpet exporting countries. Moreover, Nepal has become the full member of WTO in this context also it has to comply with international trade norms. So not taking membership with world carpet forum can not be consistent with the membership with WTO. So to avert the threat also, Nepal should comply with international and regional market initiative.

Conclusion, Nepal being one of the three major carpet exporting countries should be one of the active members of the forum. Nepal's financial contribution to the forum should not base on how much Nepal earns a year from carpet export rather it should contribute at par with Nepal's contribution in United Nations or in SAARC. The nothing right and other immunities and privileges should be on equality basis.

## **4.18 Problems and Challenges Faced by the Carpet Industry in Nepal**

### **4.18.1 Introduction**

Carpet industry is proved an integral part of Nepalese economy. It has secured high status among the cottage and village industry. It is an export oriented industry. Nepalese carpet industry is fully dependent on international market. The basic raw materials, wool are being imported from New-Zealand and Tibet and most of the produced hand knotted carpets are exported to western markets such as Switzerland, France, Germany, UK, USA, Netherlands and some of the Asian countries. Due to these dependency any change in international market brings high fluctuation on Nepalese carpet production.

At present, when Nepal became the member of WTO and 23<sup>rd</sup> April 2004. It is a challenge to translate the WTO membership into economic benefits. Nepal has to compete with India, China and Iran in international carpet market to capture the higher share of carpet.

For this, it is necessary to control the quality of carpet and the present problems of carpet industry. The quality of carpet depends upon many factors the quality of wool, proper scouring and coming, uniform hand spinning use of good technique of dyeing, proper weaving man power according to given design and pattern etc. Besides there are some major problems of carpet industry which are given below:

### **4.18.2 Labour Problem**

Labour is an indispensable factor of production in any industry. There are unlimited supply of labour in Nepal but there exists the

shortage of labour caused by middleman supply labours from one industry to another to get more commissions. There is a system of giving advance to the workers before entering work and labours can never pay their credit. It is so because workers from villages what to enjoy that's why they are always had debt from industry owners and the amount gradually increases when there is change of workers. Labours demand good facilities and more salary. In such case, there is labour union are also formed. These activities are affecting the carpet business and other sectors which has cyclical relationship with carpet industry.

#### **4.18.3 Shortage of Raw Material**

The shortage of raw materials is one of the most important problem to the manufacturers. Without frequent wool and woollen yarn they are not able to produce the commodity at a higher level. Indian woollen yarn is not available in local markets now a days. There is no permanent source of supply of raw wool from Tibet which makes the Nepalese carpets inferior in quality second important raw material is fire wood for dyeing wool. The price of fire wood is increasing because of decrease in forest which increase cost of carpet. Now a days coal is being used for dyeing wool, but the supply of coal is also inadequate.

#### **4.18.4 Negligence of Floor Price**

By reducing the prevailed floor price of carpet export market price has been taken as the base from the fiscal year 2006. One of the important factors of success of any industry depends upon the marketing policy. Nepalese carpet industry entirely depends on international market. It is seen that the floor price of Nepalese carpet is always higher than that of China and India which is making Nepali carpet difficult to compete in the international market. There are different opinions of economists an

industrialists about the minimum market price some argue of Nepalese carpet that in the liberalized economy the price fixation must be left to the interacting market forces of demand and supply. The main cause of fixing minimum price is to maintain the quality of Nepalese carpet in the international market and to prevent under importing of foreign exchange.

#### **4.18.5 Environmental Pollution**

To control environmental pollution is especially for development of men. So in the name of development nature should not be hindered. Hence, at present there is wide concern to save environment. This subject also touch the carpet industry and criticisms come to heards frequently that the carpet industry its role in the pollution of the Kathmandu valley. The major focus of criticisms are carpet washing and dyeing. Carpet industry is concentrated in the Kathmandu valley among them more than 60 percent are scattered Dhobikhola, Tukucha and monohara. The reason being that plenty of water is required for wool scouring and washing dyeing and carpet washing and also easier to just the effluent flow into these local streams which the main cause of water pollution and if the water of these local streams used for irrigation, the plant usually idea and is also harmful for cattle in the beginning water of local river are in use to wash cloths and bathing without any hesitation but now it is almost useless, if we use there will be the problem of skin diseases. But the manufactures of carpet do not agree and said that carpet industry is not a single cause to make water polluted. In April 1992, a report on carpet washing commissioned by GTZ and prepared by German Consultant H. Rollart and expressed a "Opinion that carpet washing is the reason of the filthy dirty water ... is definitely not true." The pollution caused by the sewage and garbage created by the dense population as the major source of river pollution in Kathmandu valley but it is a fact that industry is

responsible for the dense population of the valley. It was also started that if the industry is to be shifted from the valley then about 0.5 million people will be automatically shifted along with the industry.

There is also some solid waste from the carpet industry in the form of waste wool chippings from the weaving and finishing process and has from boilers (using rice husk) in the dyeing plants, but there are environment friendly and act as excellent fertilizer. The waste wool lessens the soil and retains and generate nitrogen so essential for plants. But all these solid waste are not being utilized and it can be seen thrown these waste in local river causing serious water pollution.

#### **4.18.6 Transport Facilities**

One of the areas of significance relates to transportation. Transportation plays a role of facilitating agency in total distributional channel system. But, one of the major bottlenecks in development of the export sector in Nepal is the country's geography. The difficult mountain terrain on one hand and the Landlockness of the country on the other, brings serious challenges for the development of the export logistic system in the country. The country has limited modern transportation, network and a major part of the country still depends on the Human labour for transportation of goods. This is one of the main cause that most of the carpet manufactures and exporters are concentrated in Kathmandu valley.

The problem posed by the landlockness of the country is even more severe as the country has to access to sea only through India. The problems of transit, transportation, ware housing, insurance etc. has always been obstacles to Nepal's export Trade. All the carpets exported from Nepal have to be carried by air or through India from Calcutta port.

There is lack of government incentives on transport. More than 75 percent of the carpets are exported by land and sea. So, the exporters cannot meet the prompt delivery commitments procedures and physical facilities and services at Calcutta port is another problem for the Nepali carpet exporters.

#### **4.18.7 Health Hazard Problem**

In the carpet making process, the worker are exposed to wool fibre, dyes and chemicals, including acids and alkalis. These direct explosion may cause many diseases. Most of the workers involved in carding and spinning units complain about respiratory diseases as a result of inhaling fine wool fibers, some of them with tuber culusis, which make them unable to work in their young stage. Further, the sanitation situation in most of the carpet weaving site is very poor due to which many carpet worker especially in rainy, season are found to be infected by the diseases like typhoid, cholera, Jaundic-etc.

#### **4.18.8 Shortage of Trained Worker**

The shortage of trained worker is one of the major problem of present Nepalese carpet industry because most of the trained male workers go abroad for the work. The shortage of trained manpower especially in the field of dyeing, graphing weaving and washing due to which Nepalese carpet industry has been failed to change the designs, colour combination, etc. according to demand of carpe market. Further we are not being able to change the size and patterns as being demanded by the consumers of west Europe and America because we do not have such well trained technicians who can understand designs and patters of international demand, due to which we cannot direct the weavers, on the other hand the weavers, themselves are also untrained and they can weave

the carpets with only some limited designs and patterns which have been practiced for more than two decades. Besides due to shortage of trained manpower in the dyeing plant entrepreneurs are often failed to create the accurate colour which their buyer wants.

#### **4.18.9 Quality Control Problem**

The Nepalese carpet is a unique product with superior quality. The quality of a carpet depends on a series of factors like, wool quality, proper scouring and combing, uniform hand spinning, use of good dyes and dyeing technique, proper weaving crafts man according to give design and colour pattern and maintenance of knot density and pile height, washing and finishing process etc. Hence quality control has to be done at each stage of production. In this beginning period only Tibetan wool, which very natural, soft and warm was used to make carpet that is why Nepalese carpet is often known as Tibetan carpet, but after some time the Tibetan wool could not met the demand, then New Zealand wool was began to import which is cheaper than Tibetan wool caused decline of carpet quality.

#### **4.18.10 Market Diversification**

The carpet industry has significantly in flourished around Nepal few years ago. However, its market has not diversified much. Nepalese carpet exporters have not been also to tap the market potential in countries other than Germany. Over 80 percent of the carpet exportation goes to Germany. Nepal has recently been increasing its export to USA but in other countries there has been only limited success. This heavy dependence upon one country is not good. If this market is lost the whole industry would collapse leaving thousands of people Jobless with devastating effect in the economy of the country. The terrorist attack in

America on Sept. 11, 2001 proved that situation because after this event Nepal's export is being decreasing in many countries. Thus it is very necessary to explore new markets to secure future for the Nepalese carpet industry. As EEC is evolving into one single market, there are more opportunities to expand the horizon of export of Nepalese carpets, if we can enter the European market.

However, the developed countries are big markets for the products manufactured in the third world. From the view point of marketing, the developed industrialized world is categorized into three segments. One is north America and EEC countries another is Japan and third countries which no has more stability since liberalization of their economics. In north America and EEC countries, the elderly constitute a large proportion of the population and more women are working with their good health and smaller families. But the test of the consumers in both the countries is not similar to each other.

Export marketing is the weakest of the carpet industry in Nepal. There is lack of consistent contact with foreign markets as the exporters extremely lack proper intelligence on market trends which are critical for this product in highly competitive western markets. Market research studies are woefully inadequate, incomplete and have not yet been able to reveal the trends of demand as well as strengths, weakness and market strategies of major competitors.

Nepalese carpet entrepreneurs most transform themselves according to the need of the hour: No industry, however, protected it may be from the domestic government cannot survive in open global market competition unless it becomes able to generate demands for its products. So, Nepal products most become cost effective, reliable and put to the



choice of international buyers. We need to develop our own design based on our rich artefact also and should create our market by ourselves not through agents.

## **4.19 Challenges of the Carpet Industry**

### **4.19.1 Child Labour**

Child labour is a burning Issue in Nepal. Labourers especially come from rural areas of Nepal, where people are facing hand to mouth problems.

The problem is not only limited to Nepal but also it covers most of the south Asian countries. More than 60 percent of the population of children is involved in different sectors of economy as child labourer. But their government seems still reluctant to solve this burning issue.

In recent years, western European countries, mainly Germany, opposed child labour strongly. Due to this opposition, child exploitation has been the major problem to solve the critical situation in the development of carpet industry in Nepal, for its access in international market.

Blaming the carpet industry as an exploiter of the children, the ongoing campaign in the west has created a bad image of the carpet industry and damaged the good will of the industry.

As the concept of human right has spread all over the world which is being strongly supported by the west and they oppose the idea of children working as they advocate that the children must have right to study and they must not be forced to work.

The main reason of existing child labour in Nepal is the economic backwardness and this social evil can not be eradicated until the vicious circle of poverty exists in the economy of the poor state.

The paradox of child labour is that it is being viewed with the eyes of a westerner citizens of western countries who are living in a society where every thing is guaranteed by the state. But here we do not have social security. If all the carpet manufacturers were to leave out the proven which labour from the industry, no one could make proper arrangement for their welfare.

According to CWIN survey conducted in 1992 reported that 50 percent of the labours in the carpet industry are child labour and 8 percent of them are below 10 years of age and their earning per month is not more than 400 rupees. But the ministry of social welfare rejects this report and according to its own survey only 0.76 percent of the told carpet labours are children.

Nepal RUGMARK foundation undertake four different programs to eliminate child labour from carpet industry. They are :

- a. **RUGMARK Licensing, Inspection, Monitoring and Certification:** This program is the backbone of the entire RUGMARK movement and has to be given the due importance and credit for under – taking a laborious and thankless task of making the Nepaleese carpet industry child labour free.
- b. **Rehabilitation Program (Central Based and Community Based):** Second program of NRF relates to rehabilitation of the children removed from the carpet factories. Though, NRF always tries to arrange for family reunion for all the children removed

from the carpet factories with a support for continuing education in their community/villages, but for the one where the family reunion is not possible, NRF has to keep them at the Rehabilitation centres.

- c. Preventive Program:** this innovative program was devised by NRF to counter the possibility of the children of the carpet workers getting inducted into weaving carpets, if the demand for the carpets suddenly increases. These are very cost effective programs. Which includes programs like-day care CUM education centres, education sponsorship flexible education program for older children working in carpet factories, dissemination of the formation through awareness programs and finally mobile medical camps.
- d. Advocacy and Promotion Program:** Finally, this program does not cover any children but relates to raising awareness regarding child rights and RUGMARK through printing and distribution of RUGMARK bulletins, calendars, Brochures and posters.

Under the time – bound program (TBP), ILO/IPEC has been working with the national trade union congress (NIUC), the national society for the protection of environment and children (NASPEC) and the Nepal RUGMARK foundation to withdraw a total of 1250 children from carpet factories. Till date, 1090 children have been withdrawn from the sector.

Recent data from Nepal RUGMARK foundation show that very few children below the age of 14 have been identified in the factories under the RUGMARK license arrangement. Nepal RUGMARK foundation identified 184 child labourers below 14 years of age out of a total of 20469 workers during its mid year's regular inspection survey of

licensed factories. This is less than 1 percent of the total labour force in those factories.

#### **4.19.2 WTO and Nepal**

After 14 years exercise Nepal has become a full-fledged member of the World Trade Organization (WTO). There were a lot of upheavals in the history of Nepal during this 14 years. However, the journey of Nepal's membership to WTO was continual and uninterrupted. Nepal made history by being the first ever least developed country (LDCs) along with Cambodia to accede to the World Trade Organization (WTO) by fulfilling all negotiation process. The fifth ministerial meeting WTO held in Cancun of Mexico during past 10-14 September, 2004 has provided the accession to Nepal (Sharma, Business age 1, April, 2004). Nepal's first effort to enter the global trading system dates back to 1989 when it applied for the membership of general Agreement of tariff and trade (GATT) in order to safeguard the country from the economic blockade imposed by India at that time but with the restoration of democracy the government did not pursue the effort further.

The issue has drawn government attention again when WTO was established in 1995. The government constituted a task force in 1995 to study the pros and cons of joining this organization it recommended the government to join the WTO and soon began disputes from various quarters. After debating for three years, the government finally applied for the membership in 1998.

The government's decision to be a member of WTO was based on TWO arguments. First, the WTO membership promised huge market access and second, the trading system made developed and developing trading partners morally committed to provide technical assistance to up

grade the trade capacity of its developing member country like Nepal which was need of both these strategies.

Responding to Nepal's application for the membership, the United States, Australia, India, Japan, European Union, Canada, Srilanka and Malaysia approached the government for negotiations, while other approved it unconditionally. So, Nepal had to negotiate with these countries to clear the agendas and conditions for acquiring membership.

The negotiations were held in three rounds of the WTO working party meeting in May 2000, September 2002 and August 2003 and Five rounds of bilateral talks. Finally, on August, 15, 2003, the WTO working party drafted the country's protocol of accession, which was endorsed by the Cancun Ministerial meeting on September 2003 and pledge Nepal the WTO membership. The government was asked to ratify it by 31 March 2004 and the ratification was done on March 23. As a result, Nepal was granted the full – fledged memberships with all the responsibilities and rights of WTO member on April 23, 2004.

The efforts of the last 12 years were the easier part. Now we have to work hard to extract benefit from WTO membership. Nepal need to amend around 24 laws and 14 regulations to conform to the WTO rules. Although, there is a palpable sense of nervousness among both the official and business, community, they however agree that there was no way out of WTO.

It is crystal clear that WTO has both pros and cons for the Nepalese economy. But the debate should not concern whether the WTO membership was beneficial or not. Now the question is that how Nepal can get maximum benefit, minimizing the losses. Being a least developed country Nepal as a member of WTO may be entitled to several special

and privileges in the favours. Enforcement of most of the agreements. Nepal can use subsidies in certain cases and can use ratification on the grounds of balance of payments. FDI will increase significantly. Nepal will get ample opportunity to expand export trade globally. Nepal can also protect the rights of farmers and breeders. As the global market is highly competitive and risky where there is survival of the fittest. Only Nepal should remain effortful to stand in the competitive market. There is necessity to integrate our economy to global economy by enhancing agriculture and industrial productivity, quality efficiency etc. (Das, 2003).

The benefits do not come automatically. The benefits come mainly from an improved trade policy environment. Membership gives Nepal a seat at the negotiating table, allowing it to contribute to the debate on the future shape of the world trading system. Nepal must make significant investments in implementing trade related regulatory reforms. The prerequisites for effective participation in trade negotiations whether multilateral, regional or bilateral is improved trade policy capacity.

#### **4.19.3 Export of Nepalese Carpet in WTO Regime**

Carpet industry is an integral part of Nepalese economy. It has secured high status among the small and cottage industry. It is an export oriented industry. Nepal is one of the three major carpet exporters of the world Nepal stands third after Iran and India as far as the exportation of the carpet concerned. Nepal exported 3.3 million sq. mt. of carpet 1992/93. But the succeeding years have been showing a perpetual decline in the volume of the carpet. The declines are mainly due to two reasons.

- a. Nepalese carpet could not maintain quality in the international market and against increased efficiency of some competing exporters like India and Iran.

- b. Decline in the margin of tariff preferences owing to the ever decreasing normal tariff rates of the importing countries.

There is agreement about trade policy in WTO. The United Nations convention on Trade and Developed (UNCTAD) reached to an agreement on a General System of Preference (GSP) to developing and least developed countries (LDCs) on international trade to identifying the development needs and weaker competitiveness of the developing and least development countries. The GSP provides benefits to developing countries by enabling qualified products to enter the markets of preference giving countries at reduced or free rate of duty. This is a non-negotiable and non-reciprocal preferential arrangement. The GSP aims at contributing to the economic development of developing countries.

The preferential arrangement to developing countries and LDCs are valid under the World Trade Organization (WTO) as well. Preferential rules of origin are those laws, regulations and administrative determinations of general application applied by any WTO member to determine whether goods qualify for preferential treatment like GSP leading to the granting of tariff preferences.

But, as the most favoured nation (MFN) tariffs applicable to all other countries are falling under successive WTO rounds, the margins of preference enjoyed by the developing countries and LDCs in the exports under GSP arrangement automatically shrink. Decline in the export of Nepalese carpet is the manifestation of the shrinking margin of the preferences to Nepalese product than earlier. In such a situation, increasing our competitiveness in terms of quality and prices are the remedies.

#### **4.19.4 Realizing GSP Facilities**

The GSP is scheme whereby a wide range of industrial and agricultural products originating in certain developing countries and LDCs are give preferential access to the markets of the specific advanced countries. Preferential treatment is given in the form of reduced or zero rates of customs duties. The GSP scheme is specifically designed to benefit certain developing countries and integrate them into the world economy. Under GSP scheme developing countries generally enjoy duty free or reduced tariffs and unlimited access for exportations. The tariff for imports under GSP is lower as compared to the normal MFN tariff. The major share of the market we occupy is, for carpet made of wool or fine animal hairs is a general tendency that the higher the gaps between the normal tariff and GSP tariff lead to higher market share of the carpet produced in Nepal.

Nepal has a potential to trade with all members of the WTO. However, it is a challenge to translate the WTO membership into economic benefits. After becoming a full member of the WTO, which invites efficiency, competitive environment, and a lot of challenges. All concerned laws and acts need to be reformed and amended to make WTO compatible. The government and the private sector should be working jointly in reaping the benefits of a WTO membership. In this context efforts should be made from both sides to reap maximum benefits from the WTO membership. The government should create a conducive environment for enhancing the capacity of business enterprises. The private sector should be involved in strategy and the decision making process and they are the real stakeholders of the society. There is an urgent need to upgrade stake holder's capacities in order to minimize the



negative impact of the WTO membership. The policy environment matters a lot while taking on the competition in the global market. It is therefore, necessary to have co-ordination between various partners within the country and formulate a common strategy in order to reap the benefits of the international grading system. The status of Nepalese products, development level, competitive capability, and cost as well as the source of government revenue should all be paid proper attention. No doubt the expansion of national. These measures include the establishment for regional integration, harmonization and mutual reorganization of standards; methods; adopting of regional rules of origin; and provision of adequate transport and transit facilities.

## **4.20 Role of Private Sector in Carpet Industry**

Different private sector organization NGO's, INGO's are playing important role in development of carpet industry and carpet export promotion. Private organizations have very crucial role to the export promotion and think about the betterment of the worker or people of the country. Among various private organization central carpet industries association and Nepal carpet export association have an import role from different angles.

### **4.20.1 Central Carpet Industries Association**

While the industries were growing and maturing, the need for a common platform to coordinate policies and activities between the government and the industries emerged. Hence the concept in starting steps towards the creation of the association came in 1978, however a fully representation association with a complete working body had been introduced only after the formation of the central carpet industries

(CCIA) in July 1990. Central carpet industries association has different aims and objectives.

1. To bring together all the scattered carpet industries and promote organized efforts for the betterment of the carpet industries.
2. To maintain and insure a sustained supply of raw materials for the carpet industry.
3. To promote the market potentialities of the carpet and safe guard it from market crisis.
4. To stabilize the market price and quality of raw wool used in carpet.
5. To check all the activities that hamper the qualities of Nepalese woolen carpet.
6. To work as a negotiator in the dispute of the member industries.
7. To provide advisory services to government and lobby as and when required in formulation and execution of carpet related policies and programs.
8. To promote relationship and cooperation with other organizations having similar objectives.
9. To organize trade fairs, exhibitions, seminars and related programs in order to develop the industry.
10. To train manpower and bring new technologies for the improvement in the carpet field.
11. To collect information related to carpet industry and disseminate them to members.
12. To carry out other functions for the fulfillment of demand of the industry.

The major activities performed by central carpet industries association are census survey of carpet industries; exploration of new

markets for Nepalese carpets; establishment of carpet information desk; market promotion program organizing and cording external and internal trade fair participation; commitment in elimination of child labor and involvement in child rights research, establishment of child are and education centers and conduct non-formal education classes in carpet clusters; role played in environment protection; seminars, workshops and training programs on export promotion, environment and quality management; lobbying with the government for effective policies and its execution the industries; and regular publicity and publication of carpet related issues.

CCIA has been carrying out various activities for the promotion of the industry and its markets, in cooperation with various foreign/ international organization such as American Embassy, APO, British Embassy, BUIO, BWMB, CBI, DFID, Edinburgh University, GATT/WTO, GTZ, German Embassy, ILO, TETRO, UNCTAD, UNICEF, UNDP, USAID, Nepal, wools of New Zealand WRONZ, ZDH and others.

#### **4.20.2 Nepal Carpet Export Association**

NCEA is established for the global market promotion of Nepalese carpet business, which can give boost to the economic development f the country. Company proprietor Mr. Bhim Prasad Sherchan is executive member of NCEA General members of NCEA are 57 up to the period 2007.

In the massage of NCEA president that the exporters were thinking that the government could constitute a very high level export promotion council headed by the prime minister himself with minister for industry and commerce as vice chairman with a view to giving trust to the export

of the country. But in reality such thing did not happen and like before the secretary of ministry of industry and commerce continued to remain as head of the newly unified trade and export promotion center as he used to be of the chair man of trade promotion center before. We believe such bureaucrat dominated center does not bring anything for the promotion and expansion of the international market of Nepalese carpet. These are also hurdles for carpet exports to participate in the international fairs on their own because the government has not yet made the mentality to introduce carnet system in the carpet.

The decision of the government categorizing carpet as big industry has been seen as a major setback for the carpet industry and this is incompatible because both India and China have not categorized carpet as big industries rather have been previewing various incentives of the exporters.

Nepal carpet export association as an non-profit organization and providing different opportunities to participate in different national and international market fairs as DOMOTES. Nepal carpet exporter's association participated in international carpet fair Domotex 2007 to be taken place on Hannover Germany in Germany. Like before Nepalese carpet exporters will participated in the fair under the banner of Nepal carpet exporters association.

Domotex is regarded as barometer of trends, a meeting place for top decision makers from all over the world. In international carpet fair Domotex 2007 included the latest collection, new materials, modern designs, trends and traditions were featured for the first time in a show that aimed at full market coverage 15,000 trade visitors attended the

premiere of Domotex and by the end of the four days the show had far exceeded the expectations of the 531 exhibiting companies.

#### **4.20.3 RUGMARK Foundation**

Sher Nepal carpet is committed to ending child labor in the carpet industry and teamed up with RUGMARK in doing so. RUGMARK is a global non-profit organization working to end illegal child labor in the carpet industry and offer educational opportunities to children in India, Nepal and Pakistan. it does this through loom and factory monitoring consumer labeling and running schools for former child workers.

RUGMARK offer viable alternative opportunities to such removed carpet children through education and vocational training. Nepal RUGMARK foundation is based upon the following objectives.

1. To prevent use of child labor in production of carpet and rugs by having carpet producers/exporters abide by the legal system and fulfill their social responsibilities by becoming licence of RUGMARK.
2. To rehabilitee displaced carpet child labors with education and vocational training for giving them a new hope for future with and ultimate goal for community re-integration.
3. To conduct preventive programs in carpet factories for child of carpet workers and the worker themselves.
4. To promote society responsible and environmentally sound business practices taking carpet industry as a model to start with.
5. To allocate and influence the concerned organizations, business sectors and the general public for protection and care of the rights of the child.

There are number of commercial and social benefits for carpet entrepreneurs who join RUGMARK as licences or as their sub-contractors. Some of them are: control in use of child labor in carpet factories; promoting business with an international recognition of being a child labor free carpet producer or trader; Avoidance of litigation or confrontations with government and concerned organization for violation of law un Rights of the child; contribution to the welfare of children with education and other rightful development.

# **CHAPTER – V**

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary**

Nepal is least developed, landlocked and come into the categories of poorest countries of the world. High population growth, low per capita income, dependence on foreign trade, low capital formation, continuous deficit in balance of payment are the features of the Nepalese economy, which places herself among the poorest of the world. Decreasing agricultural productivity and growing population is facing a number of problems tapped how to confront the decreasing balance of payment position. Nepal is depending on foreign trade due to poor industrial base. Lack of capital and technology, Nepal usually imports capital equipments, daily consumable goods, chemicals, means of transport and communication and labour intensive industrial products.

Woolen carpet industry is the most important industry of Nepal which is the single biggest employer and the largest foreign currency earning sector. It has made significant contribution not only to the economic upliftment of the country but also to the progress of the people through employment generation.

The major commodity exports from Nepal are carpet, ready made garments, hides, goatskin, pluses, niger seeds, handicrafts, leather goods and woollen goods. The export figures of raw goods are decreasing in comparison to manufactured goods. On the other hand, the labour intensive industries are gaining popularity in internal economy and external markets. The carpet industry is one of them and it has first rank

in the Nepalese economy. The exportation of carpet weaving increased sharply in the late 30s and beginning of 80s. But the situation could not remain same in years. Since then situation was changed suddenly during the year 1996-97 indicating the maturity stage. But, the export has been declined during the year 2001/02 till now. The export erosion of Nepalese carpet is happened almost by 29 percent in the fiscal year 2006.

The major market of Nepalese carpet are Germany, UK, Belgium, USA, Switzerland, Austria, Netherlands, Turkey, Swedan and Italy. Although Nepalese carpet are exported to more than 35 countries of the world, the Germany is the biggest importer of Nepalese carpet. It covered about 81 percent of the total carpet exportation. The growth rate was higher during he period 1984-1994. The export to other countries also was increased in between 1980-94, but in the year 2003-4, the export to many countries including Germany was decreased significantly.

The major markets of hand Knotted woollen carpet are concentrated in Europe especially in East European countries. The American countries, Turkey and Japan also consume carpet, but less. Nepal is exporting huge amount of carpet to Germany and EEC countries. So, in wider view, there is a significant relation of Nepal's export and the markets. Recently the imports in those countries is in decreasing trend. But the market potentiality of USA and Turkey are high, which are not grabbed yet by Nepal's export figures.

The art of weaving is an old tradition in kingdom of Nepal. In habitants of hills and mountains of Nepal have been traditionally producing local variants of carpets – called Radi and Pakhi which are even today famous amongst not only the Nepalese but also quite many foreigners. The traditional designs of Nepalese carpet were basically



those of Tibetan carpets, which is a curious blend of Chinese, Mongolian and Turkishian motifs. Even the Knots are similar to Persian carpets, the weaving styles of Nepalese-Tibetan carpets are different and the use of thick iron rod increases the pile height of the carpet.

Nepalese carpet is one of the major export items and source of foreign currency and employment and income for rural women. The contribution made by the carpet industry in the national economy is remarkable. Nepal stands in third position after Iran and India in carpet export business of the world. Nepal has established the record by exporting 3.3 million sq. mt. during the fiscal year, 1992/93, and more than half millions people had been provided the job in this industry. But the record could not be maintained due to many reasons. The drastic erosion of carpet is a big shock in export business of the nation. Carpet industry is facing innumerable problems. In this context, after 14 years of exercise Nepal has become a full fledged member of world trade organization (WTO). There were a lot of upheavals in the History of Nepal during this 14 years however, the journey of Nepal's membership to WTO was continual and uninterrupted. Nepal made history by being the first, even least developed country (LDCs) along with Cambodia to accede to the World Trade Organization (WTO) by fulfilling all negotiation process. The fifth ministerial meeting WTO held in Cancun of Mexico, during past 10-14 September, 2004 has provided the accession to Nepal.

Carpet industry is an integral part of national economy. It has secured high status among the small and cottage industries. It is an export oriented industry. Nepal is one of the three major carpet exporters of the world. Nepal stands third after Iran and India as far as the export of carpet concerned. The export expanded during early nineties and reached to its peak during 1992/93. Thereafter, the exports of the carpet are declining in

its physical term as well as its share to the total exports of Nepal. The declines are mainly due to two reasons (a) Nepalese carpet could not maintain quality in the international market and against increased efficiency of some competing exporters like India and Iran. (b) Decline in the margin of tariff preferences owing to the ever decreasing normal tariff rates of the importing countries.

For a small donor dependent poor country like Nepal, membership of WTO is not a matter of choice. Nepal can not avoid the consequences whether good or bad gains or losses and has to abide by the rules. Sooner or later whether she is permitted WTO membership or not. There are agreements about trade policy in WTO. The United Nations Convention on Trade and Development (UNCTAD) reached to an agreement on a general system of preference (GSP) to developing and least developed countries (LDCs) on international trade to identify the development needs and weaker competitiveness of the developing and least developed countries.

The GSP provides benefits to developing countries by enabling qualified products to enter the markets of preference giving countries at reduced or free rate of duty. This is non-negotiable and non-reciprocal preferential arrangement. The GSP aims at contributing to the economical development of developing countries.

From the study of the present condition of Nepalese carpet industry and exports of the hand Knotted carpet from Nepal, the summary of findings are:

- a. The origin of Nepalese carpet industry dates long back, but the real boom of carpet production in commercial basis started only after 1980s.

- b. The carpet industry has now stood as the biggest foreign currency earner and the largest component of foreign trade of Nepal. In addition to this it is the biggest employer providing employment to more than 5,00,000 people directly.
- c. It is found that there is significant positive relationship between Nepal's carpet export and real exchange rate.
- d. Nepal's carpet export is positively influenced by GDP and real exchange rate.
- e. There is no positive association between carpet export and one year lag export.
- f. Germany is the major importer of Nepalese hand – Knotted carpet. So far Nepalese carpet are largely based on European countries mainly Germany. However, they have now been eyeing the other western market like United States of America, Canada, Turkey and East Asian countries and Korea Republic.
- g. The major problems of carpet industry are lack of availability of enough skilled labour, raw materials, transport, lack of promotion policy, higher floor price, lack of Government policy for incentive in the exportation.

Besides these problems other challenges are child labour, pollution due to chemical used in the process of dying.

After accession of Nepal in WTO, Nepalese carpet industries are facing so many challenges for sustaining in the international market. In recent years, the Nepalese carpet export has been declined significantly. The main cause of decline of the carpet exportation is the failure to

maintain quality and to compete in price in the world market. So, the dependency on raw materials for carpet, export policy, induced constraints, various fee such as GSP, certificate of origin, rug mark, care and fair, Ecotex, relatively has higher income tax in the earning from export and industrial insecurity. Nepalese carpet is higher which ultimately has resulted in the constant erosion in the export volume.

Developed countries are the major importers and developing countries are exporters of hand knotted woollen carpets. The traditional Tibetan patterns and colours used in dyeing has slowly been changing into the modern important patterns and choice of colour.

## **5.2 Conclusions**

Nepal is not a major player in the international trade as indicated by Nepal's low share in the world export, which is less than 0.1 percent. As such the direct as well as indirect to Nepal to WTO membership would be very small. In the present situation no – country in world can survive without international trade Nepal also, could not remain in isolation from world's powerful trade pacts. Almost all trading partners of the world including almost all SAARC countries is permanent number of WTO. So pursuance of any development strategies is Isolation will not be effective to address existing problems of national economy in the field of trade, agriculture, industry etc. Nepal is a buffer state between two emerging powerful economies i.e. India and China, so WTO membership becomes a dire need for future survival in the globalizing world.

An industrial development occurs with the availability of market for the product and the expansion of market area is governed by the high demand of the product. Since 1962 carpets were exported from Nepal with the production and promotional efforts of Swiss agency. Those

carpets of Nepal were Tibetan carpets which were liked by European consumers because of the unique artistic and handicraft items. The Major changes too place in the early 1980s when the creative importers and exporters were able to blend Tibetan weave with the European design in Nepali carpets. The Nepalese hand Knotted woollen carpet then were commercially grown up and reached to all the major markets. So far, the carpet industry in Nepal is export oriented and has proved to be first important sectors in earning foreign currency. Its contribution is equally important in augmenting revenue generation, creating employment opportunities and promotion of forward and backward linkage business sectors like courier service, cargo business etc. The carpet industry is primarily based on imported raw material, technology, experts. Designer, Weaves, wool carding master. Export marketing or export destination of carpet is not diversified widely till now. Germany is still the major destination of export with over 80 percent share in quantity and value of export. The entrepreneurs still lack the complete direct contact with the main buyers.

Germany was the centre for the international carpet trade. So most of the producers produced carpets according to the tastes suitable for Germany and Europe. The main channels of marketing were the wholesalers of Germany, Switzerland, France, U.K., Turkey and USA. These countries are also the major importers of hand knotted woollen carpet in the world.

Several changes took place in 1989 and the succeeding years. The Nepali producers were encouraged due to the change of political monarchy and market opportunity; easily availability of raw material labour and financing; and introduction of new technology. The devaluations of currencies in carpet producing countries and the

unifications of Germany brought the marketing of carpet in elastic position. The initiation of the largest trade fair in Germany named Domorx fair, since 1989 exploited the population of the Nepalese carpet. The market structure then changed to the pure competition.

Nepalese carpet industry is facing a thought competition in the world market today. Western European countries, mainly Germany oppose child labour strongly. Due to this opposition, child exploitation has been the major problem to solve the critical situation in the development of carpet industry in Nepal for its access in international market.

Nepal RUGMARK foundation undertakes inspection an monitoring of carpet factories of its licensees as a primary activity towards fulfilling the broader goal of elimination of the child labour from carpet industry of Nepal. It's contribution to the welfare of children, with education and rightful development.

Although the carpet industry in Nepal has proved to be one of the prominent export oriented industry. The number of exporting units are closing down at the moment, at least part due to unfavourable government policies. The Nepalese government has formulated various measures in protecting and supporting the carpet industry in Nepal. However, the implementation of the many of the policies is yet not effect we hope that in near future, the government will enforce and implement them.

Nepalese carpet industry actually has a good prospect provided the government realizes the potential and enforces practical and flexible policies that would not only develop the industry, but also take the carpet exporters of Nepal to the level of competing countries of South Asia and

east Asia. If proper steps and measures are taken in Nepal has the potential of proving its identity for a long time to come. To become competent enough in the world market has to make improvement Nepal in the areas of technology, labour, raw material transportation, government policies.

### **5.3 Recommendations**

The carpet industry plays an important role in the Nepalese economy. To get continuous benefits from this industry some improvement have to be made. Some recommendations can be made as follows on the results founds from the study of secondary data regarding the carpet industry of Nepal and its export.

#### **1. Government should Pay Attention Towards Raw Material and Capital**

The carpet industries are always facing number of problems mainly those of raw materials and capital which compels to produce low quality which cannot fulfil the requirement of the market. To solve these problems government should give facilities to the carpet industry, providing raw materials, capital and creating other infrastructures.

#### **2. Improvement in Labour Laws and Provision for Skill Development**

) There is a need to produce trained manpower according to the needs of carpet industry. This should include not only weaving, dyeing, but also management and other required training, so that manpower can be employed directly after the training without any prior experience. Nepal carpet exporters association and concerned government authorities should be involved in this seriously in order

to produce trained manpower needed for the carpet industry and be self-sufficient.

- ) To avoid child labour in carpet industry the identity card system for weaver and spinners is recommended which may be issued by government or non government bodies using certain procedures like height, weight, citizenship card and other methods to find out the age of workers.

### **3. Clear and Consistent Government Policy**

- ) Clear and transparent policies for this sector with proper implementation on time.
- ) Establishment of 'dry port' near the entry port.
- ) Improvement of infrastructure.
- ) Establishment of 'Export Processing Zones (EPZ) with banking and all other required facilities with in the premises.
- ) The bank interest rate should be lowered to reduce the cost of capital for this sector.
- ) Favourable rules and regulations for foreign investor in this business. The prospects for foreign joint ventures should be attractive rather than discouraging.
- ) The minimum export price (f.o.b.) for carpet should be fixed and reviewed after calculation of all costs of production, provision of incentives or extra facilities to companies exporting at higher prices should be considered to increase the foreign exchange earning.



- ) Abolishment of export duty, visa fees and tax. This is essential to protect this business from collapsing from having to compete with exporters who are getting incentives from their government. As for example Indian exporters are getting 21 percent duty draw back after exporting the goods.
- ) The government should study the present conditions and problems facing by carpet industries and should provide necessary assistance.

#### **4. Improvement in Transportation Facilities**

- ) Government should make arrangement with the Indian government for direct train link between Biratnagar to Mumbai.
- ) Provision to allow the private airlines to operate charter flights to carry cargo to Mumbai. Government should give a serious thought about this, as Nhava Sheva seaport is more reliable than Calcutta port in terms of time lead and strikes in the port.
- ) There should be abolition of royalty to be paid RNAC. They should instead provide the services with discount rate of airfare.

#### **5. Improvement in Technology**

- ) The bank and financial institutions should give loan at low interest rate to set up a factory with new modern machines.
- ) Production procedure should be fully assembly line to increase the quality as well as the productivity and efficiency of labour.

- J There is improvement in wool carding, dyeing, design, weaving and washing technology. Government should allow to use of machine yarn in producing carpet.

## **6. Improvement in Marketing Facilities**

- J To keep abreast of the marketing trends of carpets, Nepalese designers and weavers should be provided opportunities to visit abroad and participate in training programs.

## **7. Initiation of Measures to Improve Competitiveness**

If Nepal is to benefit from the WTO membership all the inconsistent rules and regulation concerning the pricing, product diversification, unnecessary free regime should be dismantled on the one hand and on the other there should be a joint panel of professional in the ministry of industry, commerce and supply and ministry of foreign affairs to take up the issue if arises first at government level and secondary at WTO level in DSB (Dispute Settlement Board).

Government should give immunities and privileges for exporters to expand the export business in international market. In this global trade regime Nepalese products can establish themselves only when they offer quality good for competitive price with product delivery in time.

- 8. The detail study and analysis has to be conducted regarding the environmental issues. The standard and pollution norms should be fixed and those units meeting the standard should be closed down or shifted to suitable place providing industrial facilities.
- 9. Participation in trade fairs should be continued and small exporters should be provided grant to participate in such fairs. In addition,

the Nepali manufacturers/exporters and concerned sectors should organize trade fairs and shows through the commercial counsellors, these should be strengthened by the government level. And , the exchange of buyer – exporter delegation should be enforced.

10. Infrastructures and institutional facilities of export promotion should be strengthened. Relevant export research and market development activities in a non-conventional manner need to be undertaken, identification of market is a must for export promotion and the inputs of commercial information, intelligence and accesses to Marketing data also need to be provided.
11. Thrusts in the area like, UK, Turkey, Japan, Canada, USA must be located to penetrate the market with locating design and colour according to their tastes, and making good channel relation and public relation. The Nepal's recognition should be created to publicize Nepali carpets in those markets and the government should research for beneficial trade relation between the countries.
12. On comparison to other carpet producing countries the price of the Nepalese carpet is higher. So the producers should reduce the cost of production. If they do not reduce the cost of production they would not be able to sell easily the carpet. To reduce the cost of production they should improve their techniques, increase the production scale better result and out-put.
13. The government should protect the producers and gives support to these industries which are going to be stopped. This support may be a economical, technological and other necessary findings.

14. Government should provide necessary comparison to the producer and exporter of Nepalese carpet, if there would be price reduced in the international market.
15. The child labour issue is a tricky problem. Child labour should be discouraged in the organized production units. Since, western countries are strongly opposing the child labour used in Nepalese. Carpet industries, whatever is our condition and problems, immediate steps should be taken to avoid child labour.

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