

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Nepal is a small Himalayan Kingdom covering the area of 147181 sq. km. and 0.03 percent of the total world area. It has been wedged between the two economic giants India in the East, west and south and China in the north.

Nepal is one of the poorest mountainous and land-locked counties in the world with percapita income of about 311 US dollar. It is struggling for its development whereby it could raise the living standard of lives of more than 24 million people currently. The very source of its development is based on agriculture and natural resources, which are mainly forest-based products. The contribution of agriculture is about 40 percent in gross domestic product (GDP) whereas manufacturing sector contributes some 10 percent in GDP. India its giant southern neighbour and major trading partner. It has a major balance of trade deficit with India though it depends heavily on India for overland access to the sea. Foreign exchange is largely generated by remittances from Nepalese working abroad, exports of carpet, garments, tourism and foreign aid. A meager foreign direct investment in Nepal mostly comes from India.

Industrialization is considered to be the key for economic development. Production of carpets in Nepal gets boost in the mid eighties and early nineties, when Nepal exported 3.3 million sqmt of carpet in FY. 1992/93. And there is gradual erosion to 1.6 million and 1.4 million sqmt of carpet in the FY 2004/05. The carpet export decreased by 11 percent during the Fiscal year 2004/05.

Nepal's foreign trade sector has been characterized by huge trade deficit, owing to poor export performance and growing imports. An accelerating import growth and normal growth in exports have exacerbated the growing trade deficits. Heavy reliance on few markets, lack of export diversification, and high cost of production, poor, quality and inability to attract foreign investment are contributing to widen trade deficits.

## **1.2 History of Carpet Weaving**

Carpet is a thick covering for floor or stairs, use of wool, Hair or synthetic fibres, often with pattern or designs woven on it. Carpet weaving method has been practiced by people almost since civilization had started. From the Historic evidence, it dates back to more than 2000 years in the southern Siberia via the golden age of the Satabid dynasty in the 16th and 17th centuries it had developed the standard as that of today.

There are many contradictory versions about the origin of oriental carpet. Some argue that Chinese made the first carpets while other say that the Egyptians were the first carpet maker. Yet other hold that the earliest carpets were made by the mayas. There is a foundation of truth in all these claims. Since it is possible that they might have started weaving carpets around the same time with different methods.

The art of carpet weaving in Iran is reputed to be several thousand years old and the beauty of Persian carpets have been praised by historians and poets and wear duplicated on paintings through out the centuries. In fact, to many carpet lovers, an oriental carpet is synonymous with a Persian carpet. The fate of Persian carpet industry has varied widely on the light of political and cultural development with pick period during the dynasty (Third to seven centuries) and latter during the

sixteenth to eighteenth centuries when there was a great demand for highly refined carpets not only in Persia but also at the royal courts of many European countries.

### **1.3 Development of the Carpet industry in Nepal**

The traditional carpet weaving emerged out of the barter system in Nepal from the ancient time.

The art of weaving is an old tradition in the Kingdom of Nepal, especially in the mountainous region of the country, people had been weaving the Traditional woolen rugs which were used to guard the bitter cold of the Himalayans in the winter. These woolen rugs, called galaincha, Radi (Flooring material), Pakhi (Covering material), Lukuni (clothing material) etc, are still used in the villages in the northern mountains. In ancient period, there was no international market and high mass of consumption, only few rich people used it. However, the current Nepalese carpet industry has rather a short history of about four decades.

Traditional carpet weaving has been practiced in the Himalayan Regions of Nepal for hundreds of years. It is not possible to exactly date the beginning of this type of carpet making in Nepal. the fact that carpets have been in use in Tibet, the bordering area of china, for at least the past nine hundred years gives us a fairly good ideas about the long tradition of carpet weaving practice in the adjoining area of Nepal, Specially the northern districts like Solokhumbu, Taplejung, Manang, Mustang, Humla, Jumla, Dolpa etc. However, the carpet making was not commercial purpose. Marketing of the products was almost non-existence carpets would adorn only the houses of rich and noble people.

The carpet industry as of today is only a few decades old. Around 1949 for the first time a training programme in carpet weaving (Persian and Tibetan) was conducted by the then cottage skill Training Bureau (Gharelu Elam Talim Kendra), mostly for the military Jawans. This training programme was discontinued for the next few years till 1956 because of the lack of wool and financial support. In 1956 carpet weaving skill was imparted to both male and female workers. 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 programme) by establishing the Jawalakhel 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 meagre 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 1960s 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 is that it has not penetrated as competitors to other carpets. 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, growth rate of carpet went as high as 45 percent from early 1980s in the fiscal year 1992/93 carpet became a number one export commodity of our century, nation 60 percent sharing in the total foreign currency earning from abroad exports.

#### **1.4 Export Scenario**

Export plays a significant role in the economic development of 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's 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 1960s 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 fast 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 trade gap. The gap in the balance of trade in the fiscal year 2003/04 had been at Rs. 50.39 billion which reach about Rs. 44.6 billion in the fiscal year 2004/05.

Traditionally, Nepal is the exporter of primary products based on agriculture and forest. It 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, ready made garments and handicrafts. The decline in agricultural productivity together with a high rate of population growth has resulted in reduction of exportable agricultural surplus.

The pattern of growth of the manufacturing sector, however, has not contributed significantly in promotion of exports Nepal's export is connected with a few destinations. The ten countries Viz : India, USA, Germany, Switzerland, UK, Turkey, Belgium, nether land, Italy, Austria and Canada, account for more than 80 percent of total export.

Nepalese hand knotted carpet is one of the major export items and source of foreign currency and employment and income for rural women. Nepal exported 3.3 million sqmt of carpet in the fiscal year 1992/93. At that time the sector had given direct employment to 500000 and indirect to 1.2 million rural youths. But the succeeding years have been showing

perpetual decline in the volume of the carpet. In the fiscal year 1992/93, Nepal exported 3.3 million sq mt. of carpet and it decreased 1.6 million sq mt in the fiscal year 2004/05.

### **1.5 Importance of Carpet Industry in Nepalese Economy**

Nepal is one of the least developed and least industrialized countries of the world. Nepalese economy is an underdeveloped economy where there are numbers of problems. Under employment and adverse balance of payments are major problems of the economy which hinder the country to run in the path of development.

Carpet industry is the most important industry of Nepal. 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 and it has become the major foreign currency earning industry. The carpet industry helps to generate employment of rural people.

### **1.6 Statement of the Problem**

Hand knotted woolen carpet of Nepal is significant trade product of its market in the world. Carpet weaving has been traditional occupation of Nepalese people living in the Himalayan region. Particularly after arrival of Tibetan refugees in Nepal, after 1960 there had been gradual improvement in production of carpet because of foreign demand of Nepalese carpet from western countries. So export of Nepalese carpet has recorded remarkable progress after 1978.

Nepalese carpet industry is fully export - oriented industry. The contributions of carpet industries have played a vital role in economic development of the country and also generated large number of

employment to country people. It has earned the highest foreign currency covering around 60 percent of the total overseas export from Nepal. It has provided direct or indirect employment to more than 500,000 workers, thus, supported the livelihood of more than a million people. So it proves that the carpet industry has been developed as one of the most important industries in Nepal.

From fiscal year 1990/91, there had been continuous increase in carpet export until to Fiscal year 2000/01. But after the fiscal year 2000/01, a declining trend in the carpet export has been seen. There are a number of reasons behind the declining of the carpet export because there are lots of things to be done to take maximum benefit from a growing industry such as proper allocation and utilization of the resources, competitive price policy, child labour, 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 loss. Because of the declining export of carpet a number of adverse effects have already been seen in the economy. As most of the medium and small carpet industries have been closed, there is a dramatic growth on unemployment of uneducated people coming from the hilly regions creating many social and economic problems. In the fiscal year 1992/93, Nepal exported 3.3 million sq mt. But in the period 2000/01 the export shows saturation stage. The export declined in 2000/01 by 15.6 percent, exporting only 2.2 million sq. mt of carpet.

So, it is a matter of concern for all policy makers, businessmen and economists to study the causes of decreasing trend of carpet export. This study tried to analyze the production and export trend of Nepalese



carpet industry. It also attempts to explore the possible reasons of declining of carpet industries in Nepal.

### **1.7 Objectives of the study**

The main objectives of this study are follows:

1. To examine the export trends of Nepalese carpet during the period 1990/91 - 2004/05.
2. To examine the role of carpet industry on foreign exchange earning
- 3 To identify major problems of Nepalese carpet industry.

### **1.8 The significance of the study**

Nepalese carpet industry has great contribution in earning foreign currency by means of exporting carpet and generating employment. This study has been facing a major set back due to the declining export from the fiscal year 2000/01 leaving a large stock of unsold carpets in Nepal.

This situation has worried not only to the people engaged in carpet business but also to the political leaders, economists, sociologist due to the severe effects seen in socio-economic condition of Nepal.

It is expected that this study will help to analyze the current position and identify the problems and challenges that are being faced by carpet industry in the national and international levels. Besides this, the later researchers will get some advantage from this study.

### **1.9 Limitation of the Study**

The limitations of this study are as follows

- i. Lack of sufficient literature and information in this field is the major limitation of this study.

- ii. The study is confined to the export of carpets only.
- iii. This study is based on the secondary data. No attempt has been made to collect Primary data and intimation by carrying out survey.
- iv. Simple statistical tools are used to analyze the data.
- vi. D-W test has not been carried out.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

Each and every prominent research is based on relevant thinking which prove as a foot print for those who undertake researches and is known as literature. Indeed, a researcher must have sufficient knowledge about previous theories and researches, related to the problem selected by him or her. A review of related literature provides a deep insight of what has been occurred known or studied so far as well as what has not been done. Especially, review of literature is required in order to ascertain gap in research for future investigation further, the literature review is so previous that no researcher can avoid it. This helps in avoiding unnecessary duplications. Besides, such review makes the researcher capable of making study in hand more useful. Keeping this in mind, an effort has been made to review the literature which was relevant for the present study.

To point out an exact initial date of Nepal's overseas trade is very difficult. Authentic historical evidence about the initiation of overseas trade has lost in antiquity it may be said that with the dawn of the international relations of Nepal since time immemorial foreign trade might have taken place as a gesture of trade relations. However, major literature relevant to this study has been illustrated in the following pages (Garanja, Masta Bdr. 1999).

Carpets are one of the earliest companion of men. The art of carpet weaving has a rich history stretching back centuries. Almost the art of carpet weaving is as old as civilization. "The history of carpet dates back to more than 2000 years from its beginning in southern Siberia via the

golden age of the Safavid dynasty in the 16th and 17th centuries to the carpet of today.

The oriental carpets are said to have evolved from the tents, and were the invention of nomadic tribes. There are many theories on the origin of oriental carpets some attribute the invention of carpet making to Egyptians, while others hold that the first carpet makers were the Chinese yet others said that the earliest carpets were made by the Mayas. There is a foundation of truth in all these saying since it is probable that many people none of whom were in contact with the others began to make carpets at about the same time (Lgnaz Scholsser, 1969).

Carpet weaving has been in existence since ancient time in Nepal. The culture of hand - Knotted carpet and blanket has been developed as a cottage industry in the Himalayan and hilly regions from the early period. The production of hand - made local carpet was made specially for the local consumption and for the consumption of the economically strong consumers. But since last 30 years the nature of this industry has been changed and established as an organized export oriented industry (HMG Ministry of Labour, 1998).

The carpet Industry in Nepal is the largest foreign exchange earner and provide of the largest number of employment carpet making is not only of economic importance but also of social and cultural values, which give Nepalese weavers a sense of pride in rich heritage. Initially started as a part of religious and personal use till the middle of 1960s carpet making in commercial scale has been only since 1966. According to available information it provided employment to about 150000 persons and earned foreign exchange equivalent to Rs. 915 million in 1996/1997 alone (DEVA -2002).

Nepal Rastra Bank's study on carpet industries aims to assess the status of production situation, employment generation market potential assisted under CSI project on 1984. This research study was based on primary data collected from questionnaire designed for loan officers, entrepreneurs, leading manufacturers and exporters assisted under the project.

The principal objectives of the study were to study.

- Structure of carpet industries.
- Production and cost of Production
- Employment generation
- Trade channels, popular design and colours. (Nepal Rastra Bank 1984).

In 1985 Miss 'Anjali Joshi Studied about the participation of woolen carpet industry concentrating her study within the Kathmandu valley through direct observation of few carpet industries and interview with male and female labourers which derived some significant results as follows:

She found that the women participation in weaving carpet industry is significantly high which is around 75 percent of the total labour force. Almost these female labour (88%) are illiterate and the rest are semiliterate. The job in carpet industry is of temporary nature. According to Miss Joshi the main reasons of seeking job in carpet industry is to be self reliant economically in the family. The provision of labour welfare in these industries is not available, the physical condition of carpet industry is quite unhealthy.

Mr. Bal Krishna Subedi has 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 alternately 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 female worker who are regarded as the dependent 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 labour and it has been able to solve both the unemployment problem and adverse balance of payment by earning foreign currency from its export.

Miss Kamala Bajracharya studied about women's participation in carpet industry and found following results:

Carpet industry is highly labour intensive. The large number of women farmers work in this job when they do not have work in the field. It helps to transfer the surplus labour from agriculture sector to this industrial sector. There is no need of formal education to work in carpet industry. Therefore, carpet weaving job is attractive for illiterate women. The working conditions are bad in most of the carpet industries. The labours are paid under contract system rather than daily wage.

In 1989 Miss Joyotsna Shrestha studied the export aspect of carpet industry by using secondary data. According to her finding, federal Republic of Germany is the biggest importer of Nepalese carpets which covers almost 26.69 percent of the total overseas export shares, Her main findings are:

- Foreign currency earned by carpet export is one of the main hard currency income source of Nepal. It also advocates that carpet industries need to be promoted not only because of being the largest foreign currency earner but also because of its contribution in employment.
- Carpet industry in Nepal, is extremely labour intensive and it lacks technicians due to unorganized training programme. Regarding carpet industry J.S. 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.

Mr. Pranav Raj Sharma (M.A. Thesis in 1989) has also studied about 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.

According to Mr. Sharma, there is substantive supply from government specially in finding new export with the introduction of new design and manufacturing technology. With the reference of the findings of the study, Mr. Sharma recommends that the discrimination must be introduced on the basis of quality, compatibility and size of the carpet which would provide confidence of foreign importers.

In 1994, An article was published in a monthly magazine 'Bimochan' which 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 laboures are mainly migrated from the hilly and mountainous districts like Sindupalanchok, Kavrepalanchok, Newakot, Okhaldhunga, Ramechap, etc. Among them 80 percent of these labours 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 labours According to the study SLC passed labours are less than 3 percent in the industry and 46 percent are married in which 50 percent have children, 10 percent children co-works with their parents in the same factory. The study also focuses the payments made to the labours of the industry in which one of the most painful data picturised is that the labours 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 labours who always makes partial payments to the labours. But some where, the labours are lucky as they donot 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 and a normal worker produces 6 square meter within a month. In that 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 stresses the importance of carpet industry in promoting employment generation and export promotion but the condition of labour, especially their health, shelter education etc. are



not given emphasis and the labours 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 labours.

In 1996, Mr. Udaya Prasad Sharma also conducted a research study focusing carpets of Nepal which was named as carpet industry in Nepal. The study shows that capacity utilization is 80 percent in general which is comparatively high in big carpet industries and lower in small size and middle size industries. According to the study these industries can run in full capacity if there is a punctual supply of labour, electricity, raw materials, water, etc. He also points out that there must be an alternative usage of zingdu (cut pieces) in order to keep on the quality of Nepalese carpet.

According to Mr. Sharma average cost of carpet Per sq. meter is Rs. 1850 and most of the big industries are exporters themselves but middle and small size industries seemed to sell their product by the medium of export agents or big industries. The carpet industry supporting the national economy seemed facing several problems like shortage of skilled labour, raw materials, unpunctuality of electricity, insufficiency of water, lack of government incentives concerning price, quality control etc.

In the recommendation part of the research report, Mr. Sharma urges the government to keep the clear records that how many registered industries markets are in conduction. In his view it is the duty of department of small and cottage industry to keep records of the registered industries which will be helpful in knowing the location of the industry employment generated.

Mr. Sharma, recommended that programmes based on short term, middle term and long term should be made and implemented effectively to solve the problems being faced by the carpet industry of Nepal. On short and mid term programmes, custom procedures should be simplified for the wool importers.

The survey conducted by CWIN (Children workers in Nepal) in 1992 has derived some significant information about carpet industry especially with reference to child labour. Their estimated statistics were based in the survey of 3322 sample child worker below 16 years in the 365 carpet factories in Kathmandu valley. Major Finding of this survey by CWIN are as follows:

1. Basic Information
  - Total no. of carpet factories - 2000.
  - Carpet factories with in the valley - 1600
  - total number of labour involved - 300000
  - total number of child labour - 150000
2. Size of the carpet factories (50%)
  - Large scale - 5%
  - Medium size - 43%
  - Small size - 52%
3. Status of the carpet Factories
  - Registered (in Kathmandu valley)
  - Non registered - 500
4. Nature of Carpet factories :
  - Carpet weaving activities - 51.23%
  - Dyeing and weaving activities - 30.41%

Wool carding spinning dyeing 12.6%, wool carding spinning dyeing weaving and export 5.75%

The above findings by CWIN Survey were obtained by the Field Survey of the factories within Kathmandu, Lalitpur and Bhaktapur.

Mr. G.B. Baracharya Studied the carpet industry on export aspect 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 bonus rates on the export 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 1996 Mr. Kumar Gurung Conducted a research study titled as "A study on export of Nepalese carpet" finds that the concern bodies of the government have failed to provide some facilities to the carpet industry 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 major problem since 1993.

Nepalese carpet industries are facing both internal and external problems. According to Mr. Gurung, in the domestic front there is a heavy criticism that carpet industries are main factors of pollution in Kathmandu valley especially carpet washing and dying have been the chief factors for water pollution. External criticism is especially based on the use of child labour in carpet weaving as western countries strongly

oppose the child labour. Due to presence of these problem a declining trend has been seen in carpet export since the beginning of 1994 which created the critical situation in the development of carpet industry in Nepal. According to the study, so far Nepalese carpets are largely based on European Markets, mainly Germany. However they have been eyeing the other western market like united states of America, Canada, Australia and East Asian countries like Japan and South Korea.

Mr. Gurung finds the major problem of carpet industry are as lack of availability of enough skilled labour, raw materials, transport, promotion policies and higher floor price. Besides these problems other challenges are child labour, pollution of chemical used in the process of dying and carpet washing.

The study also points out that developed countries are the major importers and developing countries are exporter of hand knotted woolen carpets and the traditional Tibetan patterns and colors used in dying has slowly been changing into the modern importer's patterns and choice of colors.

On the recommendation side, he has urge 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.

A study conducted by international trade center, UNCTAD/GATT in 1981 has presented an overview of carpet industry in Nepal According to this study, "Handicrafts including carpet Knotting play an important

role in Nepalese economy which is sometimes described as a handicraft economy and its stage of development as a handicraft stage". It also points on the weakness and problems of the carpet and recommends immediate suggestions on improving quality design and cost of Nepalese carpet for exports. This study gives top priority to the integrated active plan for the implementation of dyeing, designing and quality improvement of carpet. This study has shown that carpets are produced mainly in Kathmandu pokhara and solukhaumbu. Carpets are produced in the northern parts of the country, where raw wool is easily available. The study has shown that some 12000 persons are actively engaged in the carpet industry. (International Trads, 1981).

In 1985-1986, Elizabeth Lynne Rink Studied about the Tibetan Carpet Weaving factory in Nepal. He finds the carpets at present being produced in Kathmandu are vastly different from the ones woven in Tibet years ago. Though the weaving techniques and the tools employed to create the woolen carpets have changed little over the years, the designs, styles, and color schemes of the carpets have been greatly altered . When once it was the weaver who personally woven intricate floral and medallion designs into a carpet's surface, it is now trained graphs men who reproduce popular pristine motifs on graph paper so that the weaver can efficiently duplicate the design in a carpet. the small scale local carpet production that once existed in Tibet has now become a mass manufacturing enterprise in Nepal aimed at satisfying the demands of a foreign.

The Tibetan carpets being produced in Nepal are largely for export purposes only. Because of this carpet manufacturers must be able to satisfy the tastes and needs of their foreign buyers. Carpet buyers prefer rugs made with pastel/colors plain centers, and simple border designs

over carpets composed of brilliant, intense colors, elaborate central figures and ornate borders carpet manufactures must be able to meet these demands in order to sell their carpets. thus, it can be reasoned that Tibetan carpet designs are no longer woven for their symbolic meaning but rather are created to fit easily into the present style of the homes of treeing consumers. Industrial development in Nepal: challenges and opportunities" according to Nepalese economy has been excessively dependent on agriculture and

Finally, the country has been facing a rapid increase in population, for four decades. And the growth in agriculture has not been able to achieve parallel growth with industry. Nepal is one of the poorest countries in the world with per-capita income of US \$ 260. Moreover, Nepal is land geophysical location, limited resource endowments, regged mountainous and late start in development endeavor all collectively have contributed to the economic back wardness of the kingdom of Nepal. since 1950s, Nepal started to divert its public resource into the economic and social development with marked improvement in some key areas i.e. expansion of physical infrastructure (road, electricity, telecommunication), access to school / level education and safe drinking water, creation of nation wide network to health post and irrigation, mainly in terai and in the hills. However, development efforts so far have not been able to alleviate poverty from rural areas, where most of the people who live under the poverty line, constitute the national average of 42 percent from the perspective of economic social and human development indicators. Thus Nepal falls on the bottom list in south Asia. Kusum, Govind Prasad (2003) "industrial development in Nepal" Challenges and opportunities" cottage industry digest, Trimesterly cottage industry digest development committee, Tripureshor.

## **CHAPTER THREE**

### **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 words of H.W. Boyd, R. westfall and S.F. Stasch, "every research project conducted scientifically has a specific framework for controlling data. This framework is called research design. Its function is to ensure that the required data are collected and they are collected accurately and economically.

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

- a. To assess the export trend of Nepalese carpet during the period 1990/91-2004/05.
- b. To examine the role of carpet industry of foreign exchange earning.
- c. To study volume, direction and composition of Nepalese carpet.
- d. To study the problems of Nepalese carpet industry.

#### **3.2. Source and Collection of Data**

The purposes of any research are to gather information which helps in identifying problems or opportunities; to determine dimensions and magnitude of the issues involved; to evaluate the alternatives; to select the proper course of action, we must analyze 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 the 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 Industries
- 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 abased on secondary data. The data and information are taken through interview and general discussion. The data so collected and complied have been suitably recorded and tabulated with the help of suitable statistical tools. The statistics tools and techniques employed heavily throughout the study are: percentage analysis, correlation and regression analysis, charts and diagrams and percentage and ratios which are very 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 an 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 in which the quantity of real dollar demanded or supplied is expressed as a function of its real price, in other words, RER reflects the price 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. GDP: Refers to the market price of the total flow of goods and services produced by Nepal over a specified time period normally a year. It is obtained by valuing outputs of goods and services at market prices. It should be noted that all inter-mediate 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 of  $y$  and  $x$  be formulated as:

$$Y = a + bx$$

$Y$  = dependent variable

$x$  = independent variable

$a, b$  = regression parameters

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

## Multiple Regression Analysis

The regression equation with more than one independent variable is called multiple regressions. There fore general Form of multiple regression equation is;

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

$$\text{or } Y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + \dots + b_n x_n$$

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-squared ( $R^2$ ) statistic measure the success of the regression in predictiong the values of the dependent variable within the sample  $R^2$  is the fraction of the variance of the dependent variable explained by the independent variables. The statistics will equal one if the regression fits perfectly, and zero, if it fits 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 regress or 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 ( $R^2$ )

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 repressor, are added in the extreme case, was can always obtain on  $r^2$  of one if you include as many independent repressors as there are sample observations. the adjusted, commonly denoted as  $R^2$ , penalizes the  $R^2$  for the addition of repressors, 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 ( $R^2$ ) the adjusted coefficient of multiple determination is used.

The expression will be given as:

$$\begin{aligned} (R^2) &= 1 - \frac{Ess / \{h - (k - 1)\}}{(Tss / n - 1)} \\ &= 1 - \frac{\text{Error sum of square}}{\text{Total sum of square}} \\ &= 1 - (1 - R^2) \frac{(n - 1)}{(n - k - 1)} \end{aligned}$$

Hence,  $R^2$  means the adjusted  $R^2$

where  $n$  = 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/or 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.

**T-test** : It is used to test the hypothesis about any individual partial regression coefficient. To compute the t-statistic, the standard errors for each input are computed separately. the t-ratio is the significant test of the regression coefficient of the hypothesis. Broadly speaking, a test of significance is a procedure by which sample results are used to verify the truth or falsity of a null hypothesis. The decision to accept or reject null hypothesis is made on the basis of the value of the test statistic obtained from the data at hand. The t-statistics, which is computed as the ratio of an estimated coefficient to its standard error, is used to test the hypothesis that a coefficient is equal to zero. To interpret the t-statistics, we should examine the probability of observing the t-statistic given that the coefficient is equal to zero. The t-test is used when the number of parameters is less than 30 ( $n < 30$ ). It is computed as

$$t = \frac{\text{Estimated Regression coefficient}}{\text{Respective standard Error}}$$

$$= \frac{b_i}{\sqrt{\text{Var} b_i}}$$

if t lies in the critical region (i.e.  $t > t_\alpha$ )

For the chosen level of significance for (n-K-1) degree of freedom, we accept the alternative hypothesis. This concludes  $b_i$  is statistically significant.

**F-test:** The purpose of analysis of variance, this test is employed. The F-statistic tests the hypothesis that all of the slope coefficients (excluding the constant, or intercept) in regression are zero.

It is calculated by

$$F = \frac{\text{Variance explained by regression}}{\text{Unexplained variance}}$$

if F is greater than the tabulated value of F at  $\alpha$  level of significance with K, (n-K-1) degree of freedom, we reject the null hypothesis and it is concluded that the regression equation is significant at  $\alpha$  level of significance.

## **CHAPTER FOUR**

### **PRESENTATION AND DATA ANALYSIS**

#### **4.1 External Trade and Payments Situation**

#### **4.2 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 of 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 takes place in one country it effects the another country. Likewise if the foreign trade of any country highly develops its capital accumulation will naturally increases consequently more investment leads to more employment opportunity which is the positive sign of overall development.

During the first eight months of the fiscal year 2004/05 total exports 36948.5 Rs. Million and total imports 81548.1 Rs. million.

During the first eight months of the fiscal year 2004/05 increase only by 2.3 percent totaling Rs. 36.95 billion , which had performed better with 6.9 percent growth in the corresponding period of FY 2003/04. Export to India rose notably in FY 2004/05 reaching 67.4 percent of total exports as compared to 57 percent in FY 2003/04 while that to other countries recorded a fall. In US dollar terms. However,

exports during this period increased by only 4.3 percent which was 12.8 percent during the review period of FY 2003/04. The proportion of Exports to imports increased to 45.3 percent during the review period of FY 2004/05 from 41.8 percent in the corresponding period of the previous fiscal year as a result of increase in exports against imports.

Exports to India during the first eight months of FY 2004/05, rose by 20.9 percent totaling Rs. 24.90 billion as compared to an increase of 11.8 percent during the corresponding period of FY 2003/04. Major items that recorded such increase were mainly synthetic textiles, chemicals, other yarns, vegetable ghee, copper wire and rods. however, the export of corrugated sheets, MS Pipes, readymade garment, ginger, and GI pipes declined during this review period.

Third country exports in the first eight months of FY 2004/05 sharply fell by 22.4 percent and limited to Rs. 12.05 billion, which had increased at least by 0.9 percent in the same period of FY 2003/04. This sharp fall in third country exports during the review period of 2004/05 has been mainly due to the substantial decrease in export of garments by 38.5 percent as a result of the end of quota system. The export of Pashmina and processed leather also declined by 4.6 percent and 11.9 percent respectively, during this period. However, the export of woolen carpet and gold and silver ornaments increased by 4.5 percent and 3.0 percent respectively.

Total imports during the first eight months of FY 2004/05 decreased by 5.7 percent and limited to Rs. 81.55 billion in comparison to 7.9 percent increase totaling Rs. 86.51 billion) in the corresponding period of the previous fiscal year. Imports from India increased by 7.4 percent in the review period of FY 2004/05. While imports from third countries declined substantially by 22.4 percent as compared to an

increase of 8.2 percent and 7.6 percent imports from India and third countries respectively during the same period of FY 2003/04 India's share in total import increased to 63.6 percent and third of their countries decreased to 36.4 percent in the review period of 2004 /05 in comparison to 55.8 percent and 44.2 percent respectively during the corresponding period of 2003/04. Imports from India in the first eight months of FY 2003/04 has increased by 7.6 percent whereas in the same period of FY 2004/05, it increased by 7.4 percent totaling Rs. 51.87 billion. During this period, mainly the imports of goods like synthetic yarn, POL products. Chemicals, garments, medicines has increased. Import of goods like salt, cement, textiles, vehicles and spare parts, paper, other stationary goods cosmetics, machinery however has decreased.

Imports from other countries during the review period of FY 2004/05 sharply fell by 22.4 percent totaling Rs. 29.68 billion as compared to an increase of 8.2 percent during the same period of FY 2003/04. Main reason for such substantial decline in imports is attributable to decrease in imports of industrial raw materials and textiles During the review period. Imports unprocessed soyabean, unprocessed palm oil, yarn plastic granuals, unprocessed wool, lubricant tries tubes and flaps electronic equipment and goods aircraft spare parts, chemical fertilizer, insecticide, agricultural tools, textile, cosmetic, paper shoes and slippers, other machinery parts other than India, has decreased during the review period of 2004/05.

### **4.3 Balance of Payments**

Balance of payment statistics, for the first seven months of FY 2004/05 shows a noticeable increase in the current account surplus mainly led by a decrease in trade deficit and substantial increase in net



transfer income despite remarkable decreases in net service income. Current accounts remained surplus during this period despite highly unfavourable financial accounts. Which was offset by increase in miscellaneous capital inflow. As a result, overall Balance of payment remained favourable during the review period of FY 2004/05. Total exports in the review period of FY 2004/05 increased by 2.4 percent totaling Rs. 33.10 billion while total imports decreased by 2.3 percent totaling Rs. 71.50 billion. Thus, trade deficit of Rs. 40.82 billion in FY 2003/04 decreased by 5.3 percent totaling Rs. 38.40 billion only during the review period of 2004/05. Service category, which is an important sector in Nepal's international transactions, declined substantially during FY 2004/05. Total service sector income declined by 12.6 percent during the review period by FY 2004/05. Such decline is mainly attributable to the decline in income from Tourism by 27.3 percent due to slackness in this business despite 1.6 percent increase in incomes from other service sector and government income by 8.7 percent. Under services category, payments for travel expenses and other payments increased by 40.3 percent and 28.2 percent respectively despite a decrease of 4.4 percent in transport service category. As a result, total payments under services category increased by 17.5 percent totaling Rs. 13.83 billion in the review period of 2004/05 as compared to that of FY 2003/05 as compared to that of FY 2003/04. Net service income dropped by a higher rate of 79.8 percent because of decrease in income but substantial increase in payments in the income under transfer category, Remittances is the key player income from this sub category in the review period of FY 2004/05 stood at Rs. 36.06 billion with an increase of 2 percent as compared to the corresponding period of FY 2003/04. Grant aid receipts of government increased by 8.5 percent and there was a substantial increase in pension

and other transfer income during this period. As a result, total transfer income increased by 10.3 percent. As a counter to the income amount to payments under the Transfer income was small and diminishing. The net Transfer income, therefore, increased by 10.4 percent totaling Rs. 55.3 billion during the seven months of FY 2004/05 as compared to the same period of FY 2003/04. Under the capital accounts, capital transfer dropped by 35.9 percent reduced to a total of Rs. 700 million during the first seven months of FY 2004/05 as compared to FY 2003/04. Under Financial account other investment Assets, as counter to other investment liability remained high. As a result, the Net financial Account deficit in the review period of FY 2004/05 widened by 205.8 percent totaling Rs. 20.78 billion.

Current account surplus during the first seven months of FY 2004/05 as compared to the same period of FY 2003/04 surged up by 28.3 percent totaling Rs. 7.30 billion. Similarly miscellaneous capital inflows increased by 4.1 percent totaling Rs. 5.119 billion during the review period of FY 2004/05 as compared to the same period of previous fiscal year. As a result, BOP accounts turned positive by Rs. 2.92 billion during the first seven months of FY 2004/05.

Carpet export plays a vital role in balance of payment because it reduces the trade deficits.

#### **4.4 Existing Market of Nepalese Carpet**

In Nepal, commercial production of carpet started in the late 1950s with the influx of Tibetan refugees into Nepal. Swiss technical assistance was also used by a few Nepalese carpet manufacturing units in the early 1960s. The influence of Tibetans and Swiss technical assistance on the

wearing style, design, colour and texture of carpets resulted in stimulating a strong international demand for Nepalese carpets.

Carpet industry, being a cottage and small industry, is one of the dynamic export growth industry in Nepal. In spite of being a traditional product, the carpet production is largely concentrated in Kathmandu valley and the surroundings. The major areas of production in the valley are Chabahil, Baudha, Jorpati, Jawalakhel, Swayambhu, Dallu, Kirtipur and Bhaktapur. Outside the valley these are in pokhara, Banepa and Dhulikhel.

#### **4.5 Domestic Market**

The Domestic market of Hand Knotted woolen carpet in Nepal is almost nil. The carpet are completely labour intensive product, it takes a average 6 days at 8 hours of day to prepare one sq. m. of carpet. Hence, it is very costly for Nepali people. However, the rich families use carpets in their home for floor covering and wall hanging as decorative item. Also, the carpet rejected by the buyers, because of the defect in production and quality, are also sold in domestic market at cheaper prices.

#### **4.6 Foreign Markets**

The decade of 1960 is taken as stage of commercial take - off of carpet production. Germany and Switzerland is assumed to be first importers of Nepalese carpet. In the beginning the export of Nepalese carpet was limited to few countries. After the diversification of export trade in overseas, Market of many commodities including carpet were being promoted. The export of Nepalese carpet being increasing in comparison to total export of Nepal since 1970s. Carpet export has decreased tremendously from 3325.1 thousand sq. m to 1657.1 thousand sq. m in 2004/05.

#### 4.7 Market Composition

Nepalese hand knotted carpet was one of the major export items and source of foreign currency and employment and income for rural women till one decade back, when Nepal exported 3.3 million sq mt of carpet a year. The contribution made by the 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 1**  
**Export Trend of Carpet from Nepal**

Fiscal Year	Quantity (Sq.m)	Value (Rs. '000)	% change in Carpet export
1990/91	1628000	3700000	
1991/92	2371000	7130000	45.6
1992/93	3126290	9526000	31.9
1993/94	3325123	9518000	6.4
1994/95	2896090	7703760	-12.9
1995/96	2617645	8032233	-9.6
1996/97	2891225	9144635	10.5
1997/98	2447050	8516344	-15.4
1998/99	2582178	9927360	5.5
1999/00	2623784	10404709	1.6
2000/01	2209828	8603721	-15.6
2001/02	1668379	6108635	-24.5
2002/03	1606520	5317656	-3.7
2003/04	1648918	5461301	2.6
2004/05	1657117	5961116	0.5

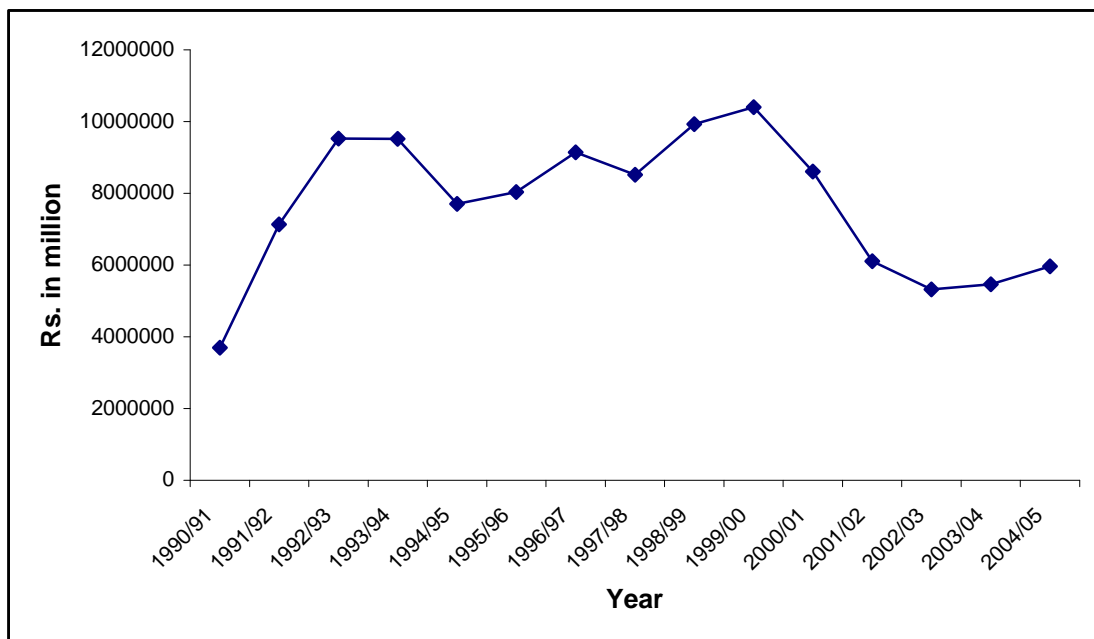
Source : Trade Promotion Centre, KTM.

The above table shows that in the fiscal year 1990/91 the total carpet export was just 1628000 square meters and it earned about Rs. 3700000 thousand. During the fiscal year 1991/92 total export of carpet increased by 45.63 percent of the previous year. But the fiscal Year 1992/93 the total carpet export was significantly increased. In the year 1993/94 Nepal exported 3.3 million sq mt of carpet which is highest in comparison to other fiscal year.

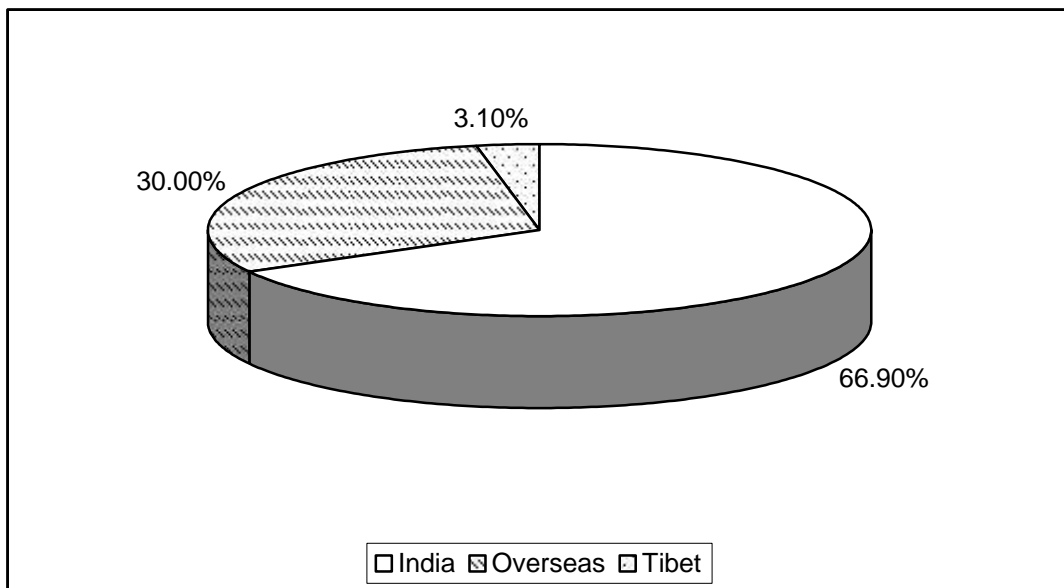
In the fiscal year 2003/04 the total carpet export was 1648,918 square meters and it earned about Rs. 546130 thousand. During the fiscal year 2003/04 to 2004/05 the total export of carpet could not increase satisfactorily which was due to some obstacles created by various satisfactorily. The main obstacle inside or outside the country was the use of child labour, quality of Nepalese carpet and to the competition in price in the world market.

The carpet export from Nepal can be presented by

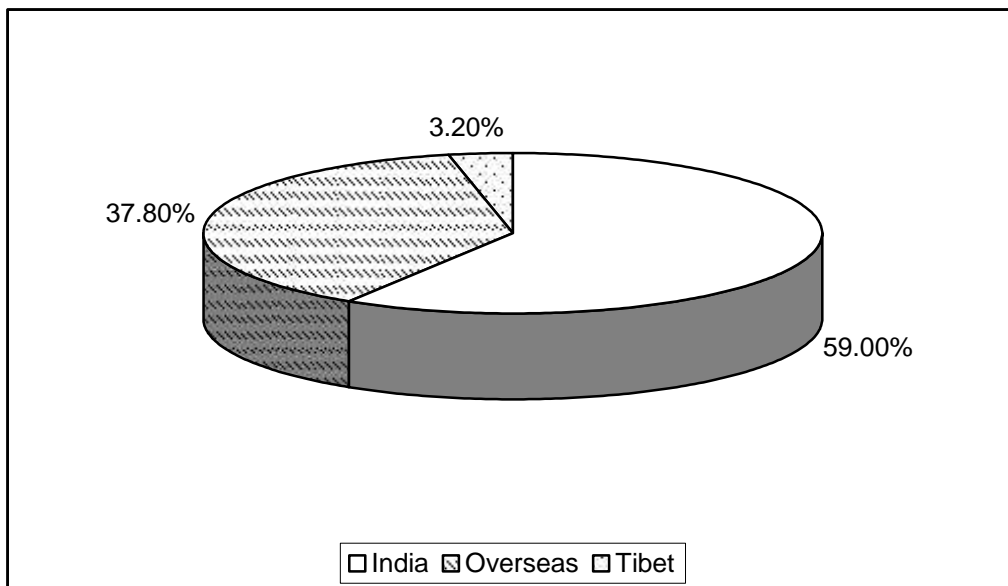
Figure 1



## EXPORTS



## IMPORTS



### 4.8 Carpet Export From Nepal by Destination

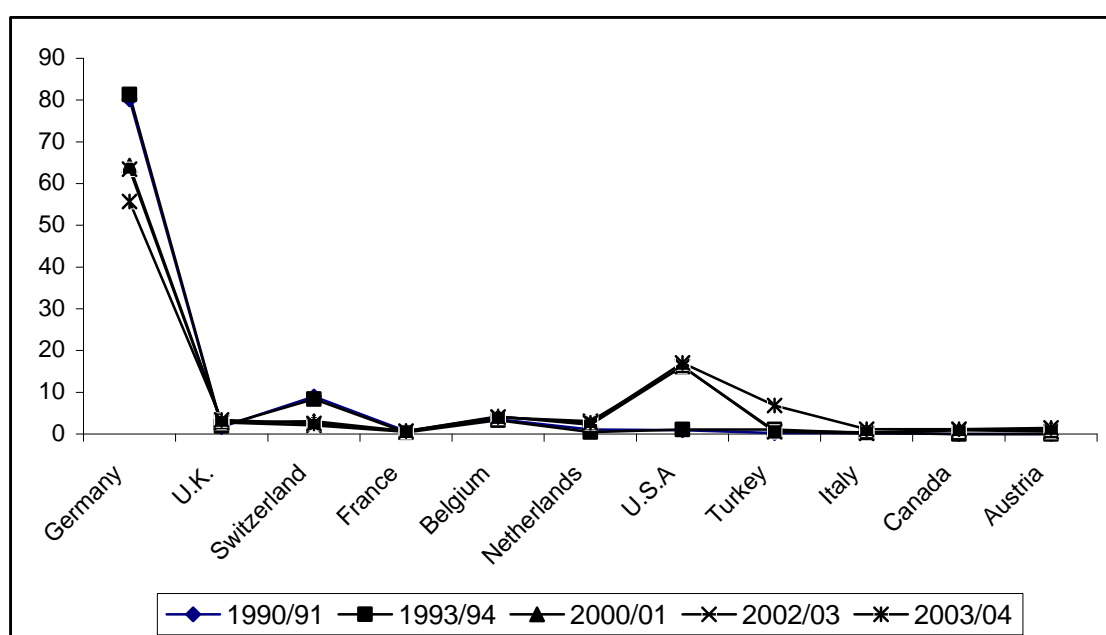
Nepalese carpets are exported to more than 35 countries. The principal buyers are Germany, Switzerland, U.K., Belgium, USA, Netherlands, France, Austria Sweden, Turkey and other several European Countries. The market of Nepalese carpet is based on Germany. The table below shows the carpet export by destination from Nepal.

**Table 2**  
**Carpet Export From Nepal by Destination (in %)**

Country	Year					
	1990/91	1993/94	2000/01	2002/03	2003/04	2004/05
Germany	80.15	81.32	64.26	63.45	55.70	49.71
U.K.	1.65	1.93	2.85	2.73	3.35	3.71
Switzerland	8.98	8.33	3.09	2.1	2.54	6.67
France	0.68	0.41	0.67	0.51	0.70	-
Belgium	3.54	3.32	4.22	3.99	4.03	4.46
Netherlands	1.11	0.47	2.26	3.10	2.70	2.06
U.S.A	0.92	1.11	16.16	16.21	17.01	21.47
Turkey	0.21	1.11	0.74	0.51	6.82	5.26
Italy	0.20	0.25	0.38	0.15	1.18	1.98
Canada	-	-	1.01	0.91	1.14	1.18
Austria	-	-	1.25	0.62	1.49	1.74

Source: Trade Promotion Center, Nepal.

Figure 2



Among the carpet importing country Germany is at the top from the very beginning of the history of carpet export of Nepal.

From the last 20 years, Germany has been a very important market for Nepalese carpet. About 81.3 percent of total carpet exported was exported to Germany in 1993/94 it was 64.26 percent and 49.71 percent respectively in 2000/01 and 2004/05. The growth rate was higher during the period 1983-1993. The growth rate has decreased in 2002/03 - 2003/04. Export to U.K, Switzerland, Belgium and USA were 3.35, 2.54, 4.03 and 17.02 respectively in 2003/04, while in 1990/91 they were 1.65 percent, 8.98 percent, 5.54 percent, and 0.92 percent respectively.

Export to U.K. has increased significantly in the year (1990-2004) export to Switzerland has been stagnating from the year 1990/91. However it has increased with 8.33 percent in 1990/91. Similarly, export to Belgium increased from 1990/91, where as export to Turkey has increased with very slow growth rate. In the fiscal year 1990/91 total export of carpet is 0.21, but it increased 6.82 percent in the year. 2003/04. Now a days Turkey is on the third position to import Nepalese carpet in the beginning of 2000/01, percentage share of carpet import to Turkey from Nepal was 0.74 percent but in the fiscal year 2004/05 it was just 5.26 percent. similarly USA is the second position to import Nepalese carpet. Percentage share of carpet import of USA was 0.92 in the fiscal year 1990/91 but in the fiscal year 2004/05 it was increased by 21.47 percent. Though the percentage share to the total carpet export seems decreases during the fiscal year 2004/05. Export to France could not increase significantly during the period 2003/04.

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



#### 4.9 Germany A Leading Importer of Nepalese carpet

Nepal is traditionally known as a carpet exporter. Germany is in the top importer of Nepalese carpet since the fiscal year 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 by the following table.

**Table 3**  
**Carpet export to Germany from Nepal**

Fiscal Year	Ont. (in sq.)	Value (in Rs)	Total Value from carpet export (in Rs.)	% share of Germany
1990/91	1171662	2671323060	3701991967	72.1
1991/92	1900612	5734890191	8130927762	70.5
1992/93	2615343	7997698664	9525648607	83.9
1993/94	2704007	7745408019	9518054630	81.4
1994/95	2299825	6246161852	7703759930	81.07
1995/96	2111886	644730850	8032232504	80.26
1996/97	2321656	7254903901	9144634592	79.33
1997/98	1898104	6447482364	8516344093	75.70
1998/99	1970548	7399672819	9885106191	74.25
1999/00	1840060	6767255745	10390538050	65.12
2000/01	1461491	5376784593	8603720518	62.49
2001/02	1036303	3461731603	6108635458	56.66
2002/03	1020652	2949318902	5317656409	55.46
2003/04	935761	259936289	5461300981	47.59
2004/05	816233	2467567080	5961115902	41.39

Source: Trade promotion center, Kathmandu.

The above table shows that Germany is the largest importer of Nepalese carpet. Its import has increased from US\$ 267.1 million in 1990 to US \$ 800 million in 1992 /93 which is the highest compared to other countries. 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 increasing trend in the fiscal year 1990/91 the carpet export to Germany was Just 1171662 square meters and percentage share to the total export of carpet was 72.1 percent in the same period. Carpet export to Switzerland was 1203 square meters and carpet export to U.K. was 1000 square meters and stood in the second and third position respectively. The percentage share of carpet export to Germany to the total carpet export was slightly decreased in the fiscal year 1991/92 by 70.5 percent. But in the fiscal year 1992/93 it was significantly increased and it shared 83.9 percent to the total carpet export from Nepal. But in the fiscal year 1997/98 it was decreased by 8 percent in comparison of previous year when it was just shared 81.07 percent in the fiscal year 1994/95 to the total carpet export.

Carpet export to Germany was declined by 1840060 square meters in the Fiscal year 1999/2000 and it shared 65.12 percent to the total carpet export. But the succeeding years have been showing a perpetual decline in the volume of the carpet export. In the fiscal year 2004/05 percentage share of carpet export to Germany to the total carpet export was 41.39 which is lower than 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 definitely discourages the Nepalese manufacturers and exporters.

#### **4.10 Carpet Export Compared to Total Export From Nepal**

Nepal is one of the three major carpet exporters of the world. Hand knotted woolen carpet of Nepal is significant Trade product of its market in the world. The weving technology of Nepalese carpet is double knotted of pure hand spun woolen yarn weaving system using think roomed round iron rod on the veriticalloom wrapped with cotton Yan. The most uniqueness of the Nepalese carpet making from raw wool sorting, washing, woolen yarn spinning, spun yarn dyeing and carpet weaving all area done by hand.

In fact Nepalese woolen carpets based on Tibetan design and style are popular in the western markets over the years, the export of the Nepalese carpets to the western market has tremendously increased. But the export of Nepalese carpet has decreased now days. The main cause of the decline is to maintain of the world market. 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 aloof by not going into carpet comity of nations, Nepal cannot 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.

Nepalese hand Knotted carpet was one of the major export items and source of foreign currency. This sector shares more part of the total export of our country. About fifty percent of Nepalese foreign currency earnings solely depends on carpet export.

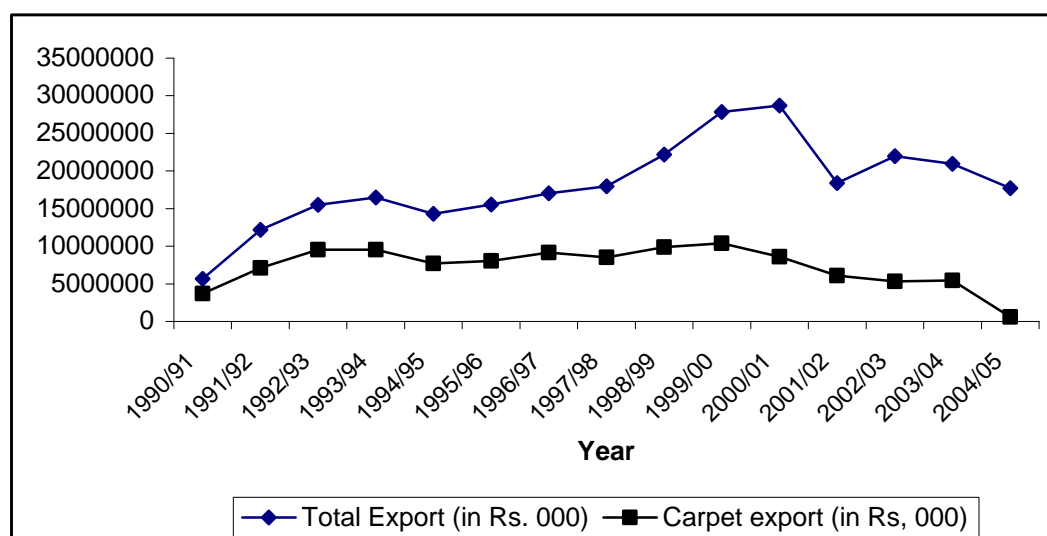
**Table 4**

**Carpet export compared to total export from Nepal**

Fiscal Year	Total Export (in Rs. 000)	Carpet export (in Rs, 000)	% Share of Carpet export
1990/91	5670977	3701992	65.28
1991/92	12184836	7130992	58.52
1992/93	15494054	9525649	61.52
1993/94	16494746	9518055	57.70
1994/95	14288312	7703760	53.91
1995/96	15526476	8032232	51.73
1996/97	17011140	9144635	53.75
1997/98	17987217	8516345	47.34
1998/99	22180870	9885107	44.56
1999/00	27827917	10390538	37.33
2000/01	28690300	8603722	29.98
2001/02	18409237	6108636	33.18
2002/03	21981475	5317656	24.19
2003/04	20941662	5461400	26.07
2004/05	17691885	596116	33.67

Source: Trade Promotion Centre, Nepal.

**Figure 3**



From the above table we can observe that during the period of fiscal year 1990/91 the percentage share of carpet export to the total export was 65.28 percent, it is the highest share of the carpet export in the fiscal year 2001/01 the percentage share of carpet export to the total export was decreased and reaches 29.98 percent as compared to an increase of 37.33 percent during the same period of previous year. The contribution of Nepalese carpet export in the total international export was 33.18 percent in the fiscal year 2001/02 but it was 24.29 percent in the fiscal year 2002/03. From the fiscal year 1992/93 to 2001/02, the contribution of carpet export to the total export was in the 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. The reason behind it is the share of total export is started to share by the other commodities also in the fiscal year 2003/04, there is decrease in amount earned by carpet export. It is due to criticism about Nepalese carpet in Nepal and outside, i.e., the alleged use of child labour not only this but other reasons are small scale industries cannot produce more carpets because of high cost price and low profit.

#### **4.11 Carpet Export to The Asian Countries From Nepal**

Exporters of Nepalese carpet are western countries mainly Germany but now a days some Asian Countries also interested to import Nepalese carpet because of it's unique feature. Main interested east Asian Countries are Japan, UAE., Korea, Hongkong, Singapore etc.

The given table shows the trend of carpet export to the Asian Countries and scope of carpet export with some Asian countries.

**Table 5**  
**Carpet Export Trend with some Asian Countries From Nepal**

On: Quantity

Countries	Fiscal Year 2002/03		Fiscal Year 2003/04	
	Qnt. (sq. m)	Value (Rs.)	Qnt. (sq. m)	Value (Rs.)
Japan	9819	31949689	14170	49587061
Hongkong	3513	1036312818	653	2812367
Korea R.	4508	2282192	5766	30972831
Singapore	275	1211655	893	4715793
Taiwan	398	1569966	489	2023927
Indonesia	14	78559	-	-
U.A.E.	104	1593066	606	3545838
Saudi Arabia	-	-	8	48685
Pakistan	42	114318	13	30441
Bhutan	1	2821	-	-
Israel	2	15229	-	-
Malaysia	-	-	45	126104
China P.R.	7	171553	2858	7231484
Thailand	227	1510801	-	-

Table shows that among the 14 countries, Japan, Korea R. Hong Kong, Singapore are the leading exporters of Nepalese carpet. In the fiscal year 2002/03 Japan imported 9819 square m. of carpet from Nepal but in the fiscal year 2003/04 it was 14170 square m. Which is remarkable increases. This type of carpet export trend surely encouraged the exporters of Nepal. Another leading exporting country Korea R. has exported 4, 50 8 square meter. of carpet from Nepal in 2002/03 but it was 5766 sq. m. in 2003 /04.

If we see the export of carpet among the south Asian countries, the carpet export is negligible. In the fiscal year 2002/03 Pakistan imported 42 square m. of carpet from Nepal. But it was decreased in 2003/04 and remained 13 square m. Similarly Bhutan did not imported carpet from Nepal but in fiscal year 2002/03 Bhutan imported 1 square. Meter of carpet.

From above table we can concluded that the SAARC countries are negligible markets for Nepalese carpet and some of the East Asian countries can be good markets for it. For this Nepalese manufactures and exporters have to compete with other exporting countries like India, Iran, Morocco etc.

#### **4.12 Major Carpet Trading Partners of Nepal**

Export plays a conspicuous role in promoting economic growth of LDCs with open economics. 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 Nepal.

Carpet industry play vital role in economic development of Nepal. It has made significant contribution on the social progress of the people through employment generation and become the major foreign currency earning industry. Export trade of woolen carpet must be encouraged providing incentives as well as market in formation through exploring new market a well and solving the internal obstacles. We can reduce trade deficit and help in our development effort through foreign trade.

The table below shows the Nepalese carpet trade with some of the leading importers of the world.

**Table 6**  
**Major Carpet Trading Partners of Nepal**

Countries	Fiscal Year 2003/04		Fiscal Year 2004/05	
	Qty. (sq. m)	Value (Rs.000)	Qty. (sq. m)	Value (Rs.000)
Germany	935461	2599369	816233	2467567
Switzerland	45334	199983	60526	230758
Belgium	58159	208024	66637	247877
Turkey	105147	257997	71999	204750
Canada	18562	85976	21021	99796
Italy	13607	80726	22338	104491
Austria	18809	56252	25650	75213
U.K.	51356	190972	66637	247877
U.S.A	287052	1360739	376617	1825952
Netherlands	41799	131675	32188	98643

The above table shows the some major carpet trading partners of Nepal such as Germany, Switzerland, Belgium, USA,UK, Turkey, Canada etc. Although Nepalese carpet are exported to more than 35 countries of the world, the export to Germany was 81 percent of the total export. The growth rate was higher during the period 1983-1993. The export to other countries also was increased in between 1984-95 but in the year 2003-2005, the export to many countries including Germany decreased significantly.

Germany USA Japan, Italy, U.K. Switzerland, Belgium, Canada are major importers of hand Knotted woolen carpet in the world. These



hand. Knotted woolen carpet, Germany lies in the first rank in the world importer and re-exporters. In the table above show only 10 carpet Trading countries are taken according to quantity exported to them. In the fiscal year 2003/04 quantity exported to Germany was 935461 square meters while it was 816233 sq.m in the fiscal year 2004/05. The quantity of carpet exported to Germany was slightly decreased due to may reasons. One of the reason is traditional type of carpet quality used of child labour in the carpet industry. Similarly in the fiscal year 2003/04 carpet exported to Switzerland was 45 square meter, 334 square meters and in 2004/05 it was 60526 square meters. The value received from the carpet export to Switzerland was also increased and it remained 230 758 which was Rs. 199983 in the previous year in 2003/04. The total export to Belgium also increased in the Fiscal year 2004/05 in comparison to the 2003/04. But carpet export to France, Netherlands, Turkey was decreased in the fiscal year 2004/05 in comparison to the same period of the previous Fiscal year 2003/04. The carpet export to USA was 376617 square meters in the fiscal year 2004/05 which was 287052 square meters in the fiscal year 2003/04. The carpet export to U.K was significantly increased in the Fiscal year 2004/05 in comparison to 2003/04.

The carpet export to Italy, Austria, Canada also increased significantly in the fiscal year 2004/05 in comparison to the fiscal year 2003/04.

#### **4.13 Determinants of Nepal's Carpet Exports**

An attempt is made in this section to analyze the main determinants of carpet export of Nepal. The explanatory variables are the real exchange rate, total export, nominal GDP, ratio of export to GDP and lagged export. Export of carpets is regressed first on Real Exchange Rate, and then subsequent regressions are carried out adding one additional

explanatory variable in each step. The tentative forms are specified as follows:

1.  $C_{xt} = a_0 + a_1 RER_t$
2.  $C_{xt} = a_0 + a_1 RER_t + a_2 GDP$
3.  $C_{xt} = a_0 + a_1 RER_t + a_2 GDP + a_3 C_{xt-1}$
4.  $C_{xt} = a_0 + a_1 RER_t + a_2 TE/GDP$
5.  $\ln C_{xt} = a_0 + a_1 \ln RER_t$
6.  $\ln C_{xt} = a_0 + a_1 \ln RER_t + a_2 \ln GDP$
7.  $\ln C_{xt} = a_0 + a_1 \ln RER_t + a_2 \ln GDP + a_3 \ln C_{xt-1}$
8.  $\ln C_{xt} = a_0 + a_1 \ln RER_t + a_2 \ln X/GDP$

$C_{xt}$	=	Carpet Export
$RER_t$	=	Real Exchange Rate
$GDP$	=	Nominal Gross Domestic Product
$TE/GDP$	=	Ratio of Total Export and Gross Domestic Product
$C_{xt-1}$	=	Carpet export lagged one year
$a_1, a_2$	=	Statistical Parameters

The regression results of the above equations are presented in the Table 4.13. The estimates are based on constant price data series of the variables.

**Table 4.7**  
**Determinants of Carpets Export**  
**Simple Linear Model**

Eqn	Dep. Var	Cons.	Independent Variable				R2	Ad.R 2	F
			RERt	GDP	Ct-1	X/GDP			
1	Cxt	- 3600.987	0.838 (10.863)				0.78 1	0.773	118.00 9
2	Cxt	- 1657.554	0.184 (0.794)	0.788 (3.406)			0.83 3	0.824	103.89 4
3	Cxt	- 1880.183	0.277 (0.966)	0.783 (2.256)	-0.098 (0.38)		0.72 2	0.804	51.147
4	Cxt	- 3592.034	0.999 (6.162)			-0.072 (- 0.444)	0.78 2	0.766	56.143

In all statistical analysis, figures in parentheses below the coefficients for independent variables indicate respective t- values. However, no attempt has been made to correct the problem of serial correlation.

Equations (1) show that there is significant positive relationship between Nepal's Carpet exports and real exchange rate. The coefficient of RER is positive and significant at 1 percent level. When GDP is added as an explanatory variable the coefficient both GDP and RER turn out to be positive but the coefficient of RER is not significant while that of GDP is significant. Carpet export lagged one year comes out with negative sign, but it is not statistically significant. Export- GDP ratio also shows the same feature as lagged export As the coefficient of these two influence factors appear to Nepal's Carpet export. Nepal's GDP and real exchange rate have significant influence on Nepal's Carpets exports. This means that higher real exchange rate and higher GDP will lead to larger carpets export.

The equations are also estimated in log-linear forms. Estimates in logarithmic forms give elasticity of dependent variable with respect to independent variables.

The **logarithmic** forms of the equations are as follows:

**Table 8**  
**Log - Linear Forms**

Eqn	Dep. Var	Independent Variable				R2	Ad.R2	F
		RER <sub>t</sub>	GDP	RMG <sub>t-1</sub>	X/GDP			
5	Cxt	3.510 (7.598)				0.783	0.769	57.727
6	Cxt	0.356 (-0.217)	2.447 (2.432)			0.844	0.824	40.683
7	Cxt	0.023 (0.056)	1.303 (3.042)	-0.442 (1.647)		0.874	0.839	28.891
8	Cxt	0.664 (3.937)			0.291 (1.729)	0.819	0.795	33.994

In log linear form of the equations similar results are obtained. Equations (5), (6), (7) and (8) show that there is positive relationship between GDP and real exchange rate and ratio of total export to GDP but negative relationship with one year lagged export. The coefficient of real exchange rate and GDP are statistically significant in equation 5 and 6. The equations itself are best fit with 78.3, 84.4, 87.4 and 81.9 % of the varieties in dependent variable being explained by the independent variable.

From the above analysis, it can be said that Nepal's Carpet export is positively influenced by GDP and real exchange rate. There is no positive association between Carpet export and one year lag export.

There are other factors which also influence Nepal's Carpet export such as employment of child labour and include low quality and so on. But it has not been possible to quantify these variables in the Carpet exports.

## **CHAPTER FIVE**

### **PROBLEMS OF NEPALESE CARPET INDUSTRY**

#### **5.1 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 on 23 rd 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 like 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:

##### **5.1.1 Labour**

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 want to enjoy that's why they are always bad 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.

### **5.1.2 Raw Material**

The shortage of raw materials is one of the most important problem to the manufacturers. Without frequent wool and woolen yarn they are not able to produce the commodity at a higher level. Indian woolen yarn is not available in local markets now a days. There is no permanant 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.

### **5.1.3 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 and indsutrialists 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.

#### **5.1.4 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 strems which the main cause of water pollution and if the water of these local strems used for irrigation, the plant usually die 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 expreseed 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 wash 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.

### **5.1.5 Transport**

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.

#### **5.1.6 Health Hazard**

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. Futher, 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.

#### **5.1.7 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, color combination, etc. according to demand of carpet 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 patterns 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 color which their buyer wants.

### **5.1.8 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 given 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 couldn't met the demand, then New Zealand wool was began to import which is cheaper than Tibetan wool caused decline of carpet quality.

### **5.1.9 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 sep 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, Nepali 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 artifact also and should create our market by ourselves not through agents.

## **5.2 Challenges of The Carpet Industry**

### **5.2.1 Child Labour**

Child labour is a burning Issue in Nepali. 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 on-going 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 total carpet labours are children.

In order to control child labour, the organizations like NASPE, RUGMARK Care and Fair, STEP etc. has launched different programmes.

The consumers of Nepalese carpets in Germany have been occupied with negative impression after the Panorma channel of Norddeutscher Rund Funk Television of Hamburg broad casted a documentary picture on April 28, 1994 about child labour involved in Nepalese carpet industries. Hence, the order of Nepalese carpet reduced and it is heard from different sources that during 1994 and 1995 about 50 percent contract of carpet orders were canceled and most of the carpet producers faced a huge loss.

### **5.2.2 WTO and Nepal**

After 14 year 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 upgrade 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 others 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 needs 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 favors. Enforcement of most of the agreements. Nepal can use subsidies in certain cases and can use retification 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.

### **5.2.3 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 in 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 Development (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 favored 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.

#### **5.2.4 GSP Rules of Origin**

The GSP is a scheme whereby a wide range of industrial and agricultural products originating in certain developing countries and LDCs are given 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.

## **CHAPTER SIX**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **6.1 Summary**

Nepal is a land - locked country based on agrarian economy. 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 countries in 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, pulses, niger seeds, handicrafts, leather goods and woolen 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 30 percent in the fiscal year 2005.

The major markets of Nepalese carpet are Germany, UK, Belgium, USA, Switzerland, Austria, Netherlands, Turkey, Sweden and Italy. Although Nepales 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 the 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 woolen carpet are concentrated in Europe especially in East European countries. The American countries, Turkey and Japan also consume carpets, 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:

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

- It is found that there is significant positive relationship between Nepal's carpet export and real exchange rate.
- Nepal's carpet export is positively influenced by GDP and real exchange rate.
- There is no positive association between carpet export and one year lag export.
- 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.
- 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 woolen carpets.
- The Traditional Tibetan patterns and colors used in dyeing has slowly been changing into the modern important patterns and choice of colour.

## **6.2 Conclusion**

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 member of WTO. So pursuance of any development strategies in 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 globalzing 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 took 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 woolen 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, Weavers, 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 center 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 woolen 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 popularity of the Nepalese carpet. The market structure then changed to the pure competition.

Nepalese carpet industry is facing a tough 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.

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 unfavorable 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.

### **6.3 Recommendation**

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. The carpet industries are always facing number of problems mainly those of raw materials and capital which compels to produce low quality which cannot fulfill 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**

a. 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.

b. 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**

- a. Clear and transparent policies for this sector with proper implementation on time.
- b. Establishment of 'dry port' near the entry port.
- c. Improvement of infrastructure.
- d. Establishment of 'Export Processing zones (EPZ) with banking and all other required facilities with in the premises.
- e. The bank interest rate should be lowered to reduce the cost o capital for this sector.
- f. Favorable rules and regulations for foreign investor in this business. The prospects for foreign joint ventures should be attractive rather than discouraging.
- g. 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.
- h. Abolishion of export duty, visa fees and tax. This is essential to protect this business for 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.

- i The government should study the present conditions and problems facing by carpet industries and should provide necessary assistance.

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

- a. Government should make arrangement with the Indian government for direct train link between. Biratnagar to Mumbai.
- b. Provision to allow the private airlines to operate charter flights to carry cargo to Mumbai . Government should give a serious thought about this, as number seaport is more reliable than Calcutta port in terms of time lead and strikes in the port.
- c. 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**

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

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

## **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 fee 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 places providing industrial facilities.
9. 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.
10. 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 counselors. these should be strengthened by the government level. And, the exchange of buyer - exporter delegation should be enforced.

11. 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 access to Marketing data also need to be provided.
12. Thrusts in the area likes, 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.
13. On comparision 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.
14. The Government should protect the producers and give support to these industries which are going to be stopped. This support may be as economical, technological and other necessary findings.



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## APPENDIX

Percentage Share of maor Commodities in the Overseas Exports of  
Nepal F.y. 2004/05

Value in '000' Rs.

Commodities	Unit	Quantity	Value	Shar in %
Woolen Carpet	Sq. m	1657119	5961116	33.7
Readymade Garments	Pcs.	29951670	6307211	35.6
Hides and Goats Skin	Sq. ft.	4821324	225420	1.3
Tea	M.T.	707.3	95609	0.5
Pulses (Lentils)	M.T.	2708	103939	0.6
Cardamon(Large)	M.T.	1215	206212	1.2
Sugar	M.T.	9200	419712	2.4
Hndicrafts			469286	2.7
Silver ware and Jewellery			345286	1.9
Woolen and Pashmina Goods			460411	8.3
Pashmina goods			135161	0.8
Towel			290435	1.6
Nepalese Puper and Puper Production			68720	0.4
Wooden Goods			1604086	9.0
Others			1791885	100.0

Source: Trade Promotion Centre, KTM, Nepal.

Comparison of Overseas Export of Carpet with other Major Commodities in the FY 2003/04 and 2004/05

Commodities	Unit	Quantity	Value	Quantity	Value	Percent Change in value
Pulses	M/T	7590	294554	2708	103939	-64.7
Balck tea fermented	Kg.	590276	62760	420543	49793	-20.7
Carpet, Knotted of wool	sq. mtr.	1648918	5461301	1657117	56116	9.2
Handmade paper and paper board			98279		58442	-40.5
Chemical Pulp of libres	M/T	1188	64836	1431	80506	2.12
soaps			16296		21523	32.1
Sugar	M/T	9250	404165	9200	419566	3.6
Whole bovine skin leather	Sq.ft.	3741165	155756	2293503	95233	-38.9
Leather of animals without hair on	Sq. Ft.	840644	34137	545451	27738	-12.7
Registers account book			136818		126892	-2.3
M and B Jackets and Biazer of Synthetic Fibres	PCS	52680	13979	24791	58348	317.4
W and G cotton Suits	PCS	670664	154729	341043	84076	-45.7
Showls - Scavers			5786		36110	524.1
woolen gloves, Kinitted			12100		25593	111.5
Cotton t-shirts	PCS	4036907	975042	613702	108487	-89.9
Bags and Similar aricles			7787		20761	166.6

### Overall Exports and GDR Ratio

Fiscal Year	GDP (at current prices)	Total Export	Ratio (Inport/CRDP)
1990/91	120371	7387.5	0.0614
1991/92	149485	13706.5	0.0917
1992/93	171386	17266.5	0.1007
1993/94	199416	19293.4	0.0967
1994/95	222018	17639.2	0.0794
1995/97	248913	19881.1	0.0799
1996/97	280513	22636.5	0.807
1997/98	300845	27513.5	0.0915
1998/99	342036	35676.3	0.1043
1999/00	379488	49822.7	0.1313
2000/01	410789	55654.1	0.1355
2001/02	422301	46944.8	0.112
2002/03	454935	49930.6	0.1098
2003/04	494882	53910.7	0.1089
2004/05	529003	36948.5	0.0698

## BASIC DATA

Year	Total Export	Carpet Export	Nominal GDP	Export/GDP	Real Exchange rate
1990/91	7387.5	3700	120371	0.0614	29.78
1991/92	13706.5	7130	149485	0.0917	52.93
1992/93	17266.5	9526	171386	0.1007	48.42
1993/94	19293.4	9518	199416	0.0967	58.77
1994/95	17639.2	5139.3	222018	0.794	54.84
1995/96	19881.1	5374.8	248913	0.0799	53.53
1996/97	22236.5	5955	280513	0.0807	59.42
1997/98	27513.5	7015.4	300845	0.0915	64.67
1998/99	35676.3	9701.9	342036	0.1043	67.82
1999/2000	49822.7	13942.4	379488	0.1313	73.75
2000/01	55654.1	13124.7	4107898	0.1355	71.33
2001/02	46944.8	7833	422301	0.1112	69.67
2002/03	49930.6	11890	454935	0.1098	69.35
2003/04	53910.7	9550	494882	0.1089	70.21
2004/05	36948.5	4075.8	529003	0.0698	70.56

Source: TPC, NRB