

# Status, Problem and Prospect of Nepalese Carpet Industry

## Kathmandu Jan 02, 2009

### **Status**

- In 2007/08 Nepal exported 1.136 million sqmt of Carpet.
- Nepal had exported 3.326 million sqmt of Carpet in 1993/94.
- An erosion of 65.8% in 15 years.
- Nepal still earns foreign currency equal to Rs. 600 crore against an investment of 1500 crore from the carpet sector.

### **How Nepal exported 3.326 million sqmt of Carpet in 1993/94**

- Product was new, different and modern than traditional rugs.
- Was cheaper than traditional carpets such as Persian and some others.
- The production time was shorter than the traditional rugs.
- No such international competition.
- Global economy was in good shape.
- Carpet was regarded as a cottage industry and thus was Income Tax free and granted GSP facility by importing country.
- Turn over and return in terms of investment was good. So more and more investment and new entrepreneurs were involved.
- There was no political instability and no labour problems.

### **Why an erosion of 65.8% in 15 years.**

- Propaganda of child labour in German Media.
- Competition with cheaper Indian carpets, "Indo-Nepal Syndrome".
- Constrain to diversify product due to restriction in import of raw materials.
- No effort to develop new product and market diversification.
- Industrial and Labour unrest.
- No Long term vision and support from the Government in export sector.
- Economic Depression in buying countries.
- No effective economic diplomacy and market promotional campaign.

## **Why Should Nepalese Carpet Revive?**

- Gives employment to rural youth, especially women and helps reduce mass poverty in the country (1 sqmt=96m/hr/12 persons) {Direct employment to 1 lac and Indirect employment to 3 lacs}.
- Helps earn Foreign Currency for the country and helps reduce Trade deficit.
- Build Nepal's image in International economic comity of Nations and active member of WTO.
- Can be established with low investment in terms of employment generation.
- Can be located to any part of the country.
- Very low energy consumption and has very less impact on environment.

## **What are the prescriptions of WTO for Export Promotion**

- Competitiveness in Quality and Price through dismantling-Unnecessary Document Regime, Unnecessary Fee regime while exporting and trade barriers (Producers + Importer's barriers).
- Through creating background Linkages aimed at Import Substitution.
- Through proper use of facilities granted to WTO members and effective lobby of trade interest within WTO.

## **Problem Facing Nepalese Carpet Industry**

- Rising cost of Production.
- Insecurity among entrepreneurs due to political and labour unrest.
- Low profit and return in term of Investment.
- No Direct or Indirect support from Government to encourage the stake holders to retain in the business.
- No Labour act in accordance with nature of industry to maintain industrial harmony.
- Different unnecessary document and fee regimes such as Tax, CO, GSP etc against WTO level (Turkey's case).
- Unauthorised bureaucrats and slow government actions and decisions.

## Way-Out

- There is still hope to revive this industry if all the stake holders are honest on their part.
- Government should bring some positive sentiment in terms of export policy to encourage investment in export sector.
- Dismantling of all necessary document and fee regimes.
- A realistic Labour Act where the worker and owner feels his future is safe.
- Trade Unions and Business community should take different action to increase productivity of worker hence increasing profitability.
- Due to high production cost in the urban areas, the production centre should be relocated to rural areas with minimum infrastructural facility.
- Creation of Lobbying Cell in the Ministry equipped with professional legal practitioners of International academic standards to plead Nepal's Trade interest in DSB of WTO.
- Government should seek donor agencies for technical support to create backward linkages (Sheep Farming).
- Creation of Physical and Chemical lab to benchmark the quality.
- Government should ensure uninterrupted Nepalese right to access to the Sea and transit thereto and there from.
- Labour problem should be addressed on a Long term basis (Health + Education + Insurance + Working environment).
- Government should have the commitment to promote the carpet sector for a period of at least 5 to 10 years.
- There should be an export promotion zone especially for carpet with special labour law and economic policy.
- Soft loan for Building infrastructure required for the Carpet industry in rural areas to help generate work and Income aimed at eradicating poverty (additional work for Agriculture based manpower).
- Poly Technical training Center aimed at developing skilled manpower required by carpet Industry.
- Establishment of Carpet Production Zones in areas inhabited by Indigenous community.

## Responsibility to Stop Erosion in Carpet Export

- Ministry of Labour {to stop labour unrest}.

- Ministry Of Industry {Declare carpet cottage Industry, Easy Access to Sea Port, Effective WTO Cell pleading Nepal's Trade Interest}. Chemical + Physical lab + benchmarking with Unique national Label, Poly Technical carpet training Institute establishment of carpet Export Processing Zone and Carpet Production Zone.
- Ministry of Finance (Tax exemption in earning from Export). Budgetary Appropriation for Aggressive marketing, Soft Bank loan to invest in Infrastructure building.
- Ministry of Agriculture (Sheep farming).
- Nepal Rastra bank (Currency Facility to open Showroom in Exporting Country).

### **Nepal's Weakness**

- Ineffective and unpredictable policies in the area of taxation, investment environment whereas other countries have long term vision and export policies.
- Weak Infrastructure.
- Rigid Labour Law.
- Unfriendly business climate.
- Lowest labour productivity.
- High cost of transportation to sea port.
- Inadequate marketing network and vision.
- Due to restriction on Import and raw materials of one quality, no product development has been achieved by Nepal carpet industry, i.e., hand tufting, loom durries and other types of flooring.
- Rigid banking policies and lack of credit insuring agencies.
- What carpet can contribute to nation?
- Generating numerous job creation in the rural areas.
- Can contribute in poverty alleviation by increasing cash flow in rural areas.
- Helps indirectly to promote the word Nepal among the people using carpets.

What other exporting countries are doing to promote export.

- Nepalese carpet have to face tough competition from India and China.
- There are no political unrest.

- Labour is cheap.
- Transportation cost much cheaper due to access to sea.