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**AN ECONOMIC ANALYSIS OF HAND KNOTTED
WOLLEN CARPET INDUSTRY IN NEPAL**

Abstract of Bachelor Thesis

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Abstract

Carpet industry plays an important role in a country like Nepal in terms of export and employment. The target of this study is hand-made Nepalese carpets. The aim of this thesis is to present a case study in hand-knotted woollen Nepalese carpets. The goal of the research is to find out the role of carpet industry in the potential development of Nepal. This thesis presents the relationship between carpet industry and economic growth as well as the market possibilities for the hand-made carpets in foreign market. ARIMA method is used in order to find out the relationship between the carpet export, employment and GDP. The data for the research is collected from World Bank Statistics and data ranges from 1999-2013. The result shows that there is a negative relationship between carpet exports, employment and GDP. The economic growth of Nepal is not based upon the carpet industry and also that carpet industry exports do not affect positively on employment.

Keyword: Nepal, carpet industry, export, economy growth, employment

Abstrakt

Pedmětem tohoto projektu jsou ručně vázané vlněné nepálské koberce. Cílem výzkumu bylo zjistit roli kobercového průmyslu a jeho potenciálu v rozvoji Nepálu. Vztah mezi kobercovým průmyslem a hospodářským růstem, tak jako tržní příležitosti pro ručně vyráběné koberce na zahraničním trhu.

Teorie se skládá z teoretické části, porovnání a analýzy teorie v rámci cílového produktu s využitím výsledků. Na základě těchto zjištění by firmy zabývající se o zahájení podnikání na zahraničním trhu, se dříve než jejich sousedními konkurenty, Čínou a Indií, měly investovat více úsilí do oblasti marketingu jejich produktu, čímž by o nich potenciální zákazníci získali v tísí povědomí. Tato práce také ukazuje, že existuje negativní vztah mezi exportem koberců, zaměstnaností a HDP. Ekonomický růst Nepálu není založen na kobercovém průmyslu a takéž export kobercového průmyslu pozitivně neovlivňuje zaměstnanost.

Klíčová slova: Nepál, Kobercový průmysl, Export, Hospodářský růst, Zaměstnanost

Introduction

This research is made to discover the market potential for Nepalese carpet industry to reach the global market. This will make the segmentation and decision making processes easier for the industry and help them to concentrate their marketing efforts more efficiently. This research also focuses on the amount of competitors in the market, best entry method, suitable distribution channel, strength and weakness of the product etc. There are various ways and ideas through which international as well as domestic business can be conducted.

Challenges

Floor coverings including hand-made woolen carpets are among the various labor intensive manufactures traded in the world today. A very few countries specialize in the production and export of hand-made woolen carpets as producers while industrialized nations form the main markets. For Nepal a less developed country (LDC) with a Gross National Product (GNP) per capita \$ 743 in 2012 carpet manufacturing is one of the primary sources of foreign exchange. The country is ranked the 14th largest producer of carpet with 1.1 % share of the world market. For an economy characterized by a large primary sector in terms of the population who depend on agriculture, carpets contributed 22 % of non-agricultural Gross Domestic Product (GDP) in 2001. At the end of the 2008, the sector provided jobs around a quarter of total manufacturing employment. Carpets formed the leading export item for around a decade or so but its share has fallen from more than half of total exports to less than a quarter of total exports in 2009, beginning of world crisis . An article in Asia times (August 2010), with a headline Nepal's carpet makers cry for help. The article was about the ailing Nepalese carpet industry with interesting facts and figures about the development and the current situation of the Nepalese carpet industry, the problems and the competition with the Indian carpet industry as well as Tibet and China

Methodology

The data was collected from the World Bank data Statistics, time period of 1999-2013. The exports of the carpet period 1999 to 2013 were analysed through regression analysis model. The main methodology was the data gathering procedure and statistical analysis. The time series data covered 15 years ranging from 1993-2013. The purpose of choosing this period is to empirically test the significance or extent to which carpet sector contributes to the economic growth despite several years of government neglect and the renewal of effort towards stabilizing the sector, since 1993 to date. The data was obtained from the 2013 edition from World Bank Statistics (WBS) and Central Carpet Industries Association of Nepal (CCIA). It focuses on the carpet industry background, the current condition of carpet industry and its mobilization and the upcoming sector except the carpet in Nepal. The statistical data of the carpet industry GDP, export, employment were compared.

Results

The main goal of this thesis was to analyse the key determinants of the carpet industry and role of carpet industry in the potential development of the country. The results are describing below:

- ❖ If exports go up by 1 million, employment goes down by 0.045 million. This means that with increasing exports, employment goes down. This may be due to technology deployment.
- ❖ The marginal impact of carpet industry upon Nepalese economy, as the growth of Nepalese economy is clearly not drive by carpet industry.

Future prediction

The future prediction is done from year 2014 to 2018, using Arima forecasting model. Here is the forecasting model; it shows that even in future the carpet export does not impact to the economic growth and employment of country. We can see from the above

data that forecasted value is growing continuously but not as the ratio of actual value. It suggests that the actual relationship between these variables will be even weaker in the future.

Conclusion

It is recommended that Government should provide funds and allocate the budget to this Carpet sector in a consistent manner because of its importance to the national economy. If the fund will be properly utilized and effectively implemented there are high possibilities to effect the economy by carpet sector. There are many macroeconomic variables which can determine the GDP but carpet exports also shows a minor influence to GDP.

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