

*Full Length Research*

# Industrialization Strategy for Nepalese Carpet Industry

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Succeed of one appropriate industry can able to change the fate of developing nation. Every developed country across the world had such an industry which really supported to get their economic growth. As we know that Nepal is developing country so it really needed the industry which has its comparative gain. In this context carpet industry could be the mile stone for economic growth. The carpet industry, is one of the famous industry that has been spread widely across the world, the extent of the carpet industry depends on the availability of raw materials, presence of skilled weavers, presence of a tradition of weaving art, etc. Every nation takes on the art differently and has a special taste, preference, designs, quality, and colors imparted to it, which makes a finished rug, a unique product specific to the region. In Nepal, this industry means one of the country's top foreign currency earners by exporting its products to over three dozen countries world widely. Germany, the US, Belgium, Britain, Turkey, Switzerland, Japan, Spain, Canada and Italy are the major markets for Nepali woolen carpets. Carpet industry of Nepal keeps the art of Nepalese culture and traditions. It can plays the vital role for Nepalese economic development because Nepal is an agricultural country and carpet industry is also related to agricultural because of the raw material wool. We can say that it is the industry of manufacturing agricultural industry. Moreover it is also the labor incentive industry, the country like Nepal, needs exactly the same as it can utilize its labor force. But however carpet industry of Nepal is facing the problems and it is in the great depression it needs a lot of security for recover. So in this paper I addressed not only the problems but also put some light for the solution means the appropriate strategies in order to recover its worth and show its potential on the contribution for the nation's development.

**Key Words:** Carpets, Developing Countries, Economic Growth, Industries, Nepal.

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## INTRODUCTION

This is the age of globalization and the communication, in this new era of trading world the carpets industry and its products could be the most popular products across the world which used to make in different design and color by the hand from pure Himalaya sheep wool. If we look the history of this product it was started from Middle East to China, which has long been known for their complex

designs and rich colors. But today carpet is famous all over the world. Carpet history in Nepal is very long, at time Chinese army occupied Tibet in the 1950s, numbers of refugees entered Nepal. The refugees brought with them their traditional carpet-weaving practices. Searching for income, they began making carpets, from them Nepalese learned the making process and eventually, the

first commercial shipment of hand-knotted carpets was exported from Nepal in 1964. And gradually it's become one of the major industries of Nepal which can create the job as well as the foreign currency for economic development. In the history, Nepal was succeed to export .9 million square meters of carpet, providing the country's largest source of foreign income at 1995/96. Hundreds of small producers were used to make carpet in Nepal. Nepalese carpet is very famous all over the world not only because of warm but also because for the decoration and for gift. Nepalese carpet also using for the religious matter by making the different kind figure of faith in the carpet. In the every religions Nepalese carpet is very famous all over the world.

As we know that Nepalese carpet is one of the major industries in Nepal which could be mile stone for the economic development, it has proven that it can decrease not only the unemployment rate but also can contribute to the national growth. But however this industry is in trouble now. Hardly very little number of factories we can find in Katmandu valley which was used to find hundred. In this research, I do try to find out not only the reason behind this great depression in the carpet industry in Nepal but also try to find the appropriate policy for recovery by studying the world carpet industry.

## NEPAL'S ECONOMY AND CARPET INDUSTRY

Nepal, one of the least developed country in the earth. Where there around one-quarter of its population living below the poverty line. Agriculture is the major contributor of the economy, by providing a livelihood for three-fourths of the population and holding one-third portion of total GDP. Lack of manufacturing instruments, Industrial activities mainly focus on the processing of agricultural products, including pulses, jute, sugarcane, tobacco, grain and procession of wool. Nepal is one of the rich countries of hydropower, it has considerable scope for exploiting its potential, with an estimated 42,000 MW of feasible capacity and 83000MW in a total, but political instability hampers foreign investment. Landlocked geographic location, civil strife and unskilled labors are adding more difficulties for Nepal.

As I mention before, industrial activities in Nepal mainly involves the procession of agricultural products. It is therefore carpet industry is also the one the major industry of Nepal. Keeping the sheep in large farm house in the Himalaya area is very good environment for sheep, from the sheep many framers can produce the wool which need to weave the Carpets. This has great demand all over the world. Nepal keeps the great potential of carpet producing and as well exporting to the foreign countries. Carpet industries can be the one the mile stone industry for Nepalese economic development.

## Nepal's Economy

Nepal Known for the world's highest mountain but having lowest economy, Nepal is on the Sandwich of following its giant neighbors, India and China, along the path of intense economic development. After a decade of insurgency (1996/2006), the economy in Nepal is picking up gradually and improving as well. Restored stability and confidence are opening new opportunities to develop Nepal's distinctive resources and unleash the potential of its young, connected and well- educated population. Signs of new wealth-creation are already visible among the young urbanites, creating a modern Nepali middle class. With the development of commercial markets and changing customer demand, Nepal connects to the global economy and enjoys its benefits. Trying to build the modern industries for changing market demand and under-utilized resources is not only offering profits but also a chance to make economic development equitable and inclusive for thousands of disadvantaged producers and consumers. In Nepal we can see many more things are going to be better. But still it has to do a lot of exercise to enter to the global economy. (Table 1, 2 & Figure 1)

After the Economic research of Nepal, we can see that most of the population are depending on the agriculture side rather than manufacturing and the services and also it is facing the trade deficit. Depending most of the population on agriculture and facing the trade deficits is not good for economic development. So Nepal needs to improve its manufacturing side first. For this regards carpet industry might also be the mile stone for the Nepalese economic development. Why carpet industry?

## Carpet Industry

No one can say exactly from when carpet industry has been started .The gradual spread of the art of the knotted carpet, over the centuries, around the globe has proved to be a hindrance in solving the mystery of its origin. However, many different carpet fragments have unearthed during excavations around the world. Strong evidences collected from the Middle East region say that carpet weaving was extensively carried out there during the 2nd-3rd BC. Therefore, it is termed as the cradle of carpet weaving. People migrating to areas from Turkestan to the west, the Caucasus, Persia, Anatolia, to the east to China, and then later to India and Nepal, extended this art form to the natives of these places. Most carpets and rugs that we see today reflect their rich weave and decorations of Persian styles. Sustaining through decades and centuries, such significant objects have lived through & are looked up with great respect and pride even we can not say the exact history of carpet, but we can say it is really the one ancient production.

**Table 1.** An Economic Overview of Nepal

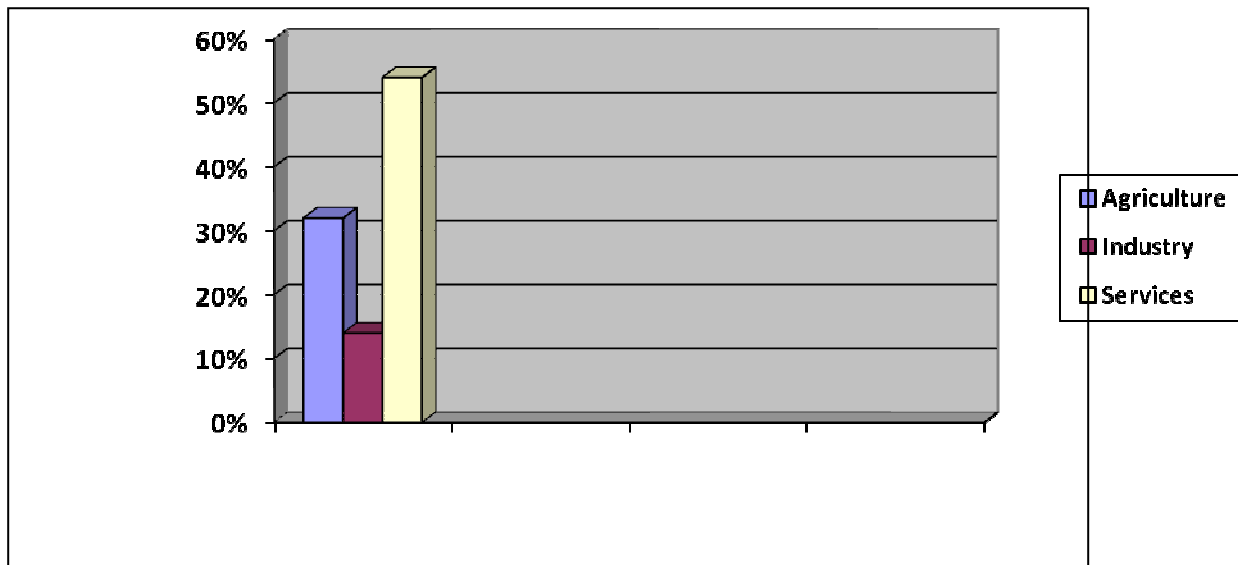
An Economic Overview of Nepal	
land	147,181sq km
Population	29,033,914
Population growth rate	1.24%
GDP	\$21.15 billion
GDP growth	2.7% (2015 est.)
GDP per capita	\$2,500
Inflation	9.9%
Interest rate	7%
Taxes rate	25%
Labor force	15.6 million
Unemployment	46%
Exchange rates: (NPR) per US dollar	108.8
Cost of living per day	\$15-25
Exports	\$604.7 million
Imports	\$6.667 billion
Balance of trade	\$-2.488 billion

Sources: CIA World Fact book (2016)

**Table 2.** Labor force composition by sector

Category	Units
Agriculture	32%
industry	14%
services	54%

Source: CIA world fact book (2016)



Source: CIA world fact book (2016)

**Figure 1.** Labor force composition by sector

**Table 3.** Top Carpets Importing countries or areas in 2015

Rank	Country	USD 1000
1	USA	1,031,702
2	Germany	413,326
3	UK	112,618
4	Japan	45,056
5	Turkey	41,910
6	Switzerland	30,164
7	Canada	28,954
8	Italy	26,486
9	France	25,049
10	Australia	21,675
11	Austria	17,639
12	Sweden	15,082
13	Austria	14,894
14	Egypt	14,523
15	China	10,730

Source: ITC calculations based on UN COMTRADE and ITC statistics. (2016)

Carpets are used in households, offices, hotels, functions, occasions, public gatherings and many more places to list. Apart from beautifying the surroundings, they are prominently used to pronounce the theme. To satisfy an immensely Carpets are making in various types, design and as well various techniques. Because of its great utility it has great demand in the world market. Especially in the European and American markets. One overview of demand of carpet all over the world. (Table 3)

### **Nepalese carpet Industry**

Economic of Nepal is still struggling for the success. So it is trying to establish the some industry which is related to the procession of agricultural products. Carpet industry is one the example which industry is related to the agriculture so some said that this is industry would rather to say Agriculture-manufacturing industry. It is therefore carpet industry is also the one the major industry of Nepal. Keeping the sheep in large farm house in the Himalaya area is belongs to agriculture activity and producing and making carpets belong to the manufacturing .Nepal keeps the very good environment for carpet industry

because the weather and labor force. It is therefore it keeps the great potential of carpet producing and as well exporting to the foreign countries, which it has been already did prove. Carpet industries can be the one the mile stone industry for Nepalese economic development. (Table 4 & Figure 2 & 3)

### **PROBLEMS OF CARPET INDUSTRY**

The reasons behind the great crises of Nepalese carpet industries are as follows

1. Increasing in competition but decreasing quality
2. Civil war of Nepal
3. Use of child labors for weaving.
4. Others

### **Increasing in competition but decreasing in quality**

Nepal lies between India and china the two big and successful country ,in term of international trade, so Nepal has consider as the Yam between two big stone, it is a fearful thing to compete the country like India and

**Table 4.** Total Quantity of carpet, which exports overseas from Nepal  
(Unit:000. Sq. MTR)

Fiscal year	Quantity
2000	2614
2001	2891
2002	2447
2003	2605
2004	2509
2005	2243
2006	1693
2007	1567
2008	1618
2009	1664
2010	1422
2011	1320
2012	1290

Sources: NCEA( Nepal Carpet Association(2016)

china in this global age either that is home or abroad for the developing country like Nepal.

If we research the history we can find that the competition has been highly increased when it's moved the process of taking membership of the WTO, finally Nepal has been member of WTO since 23 April 2004. I am sorry to say that since that day the speed of declination of Nepal has been rapidly grown. Because of the increased in competition. When Nepal has taken the member of this organization, all the quota providing by the US and Germany has been automatically removed, and no allowed to subsidize and protection of the national industry, it should has to fight directly with the India and China. If we made comparison of Nepal with India and China in term of balance of payment we can find the following figure. (Table 5)

Time to time India and china made investment for their capabilities building on the Wool Processing, Carding, Spinning Dyeing, Weaving, Washing and Drying, Stretching, Finishing, Packing, which are the step that use in the making the carpet and they invented the new style and of making it which minimizes the cost maximizes quality, with help of its they produced the carpet in mass and diversified style as so they export their good by looking the country's living standards income. But Nepal remain same it can not improve its quality, Nepal applying the same process exactly what it was used in 1995. So it was totally defatted

Hand knotted Nepal carpets are purely handmade from the beginning to the end which takes so long time

### Civil War of Nepal

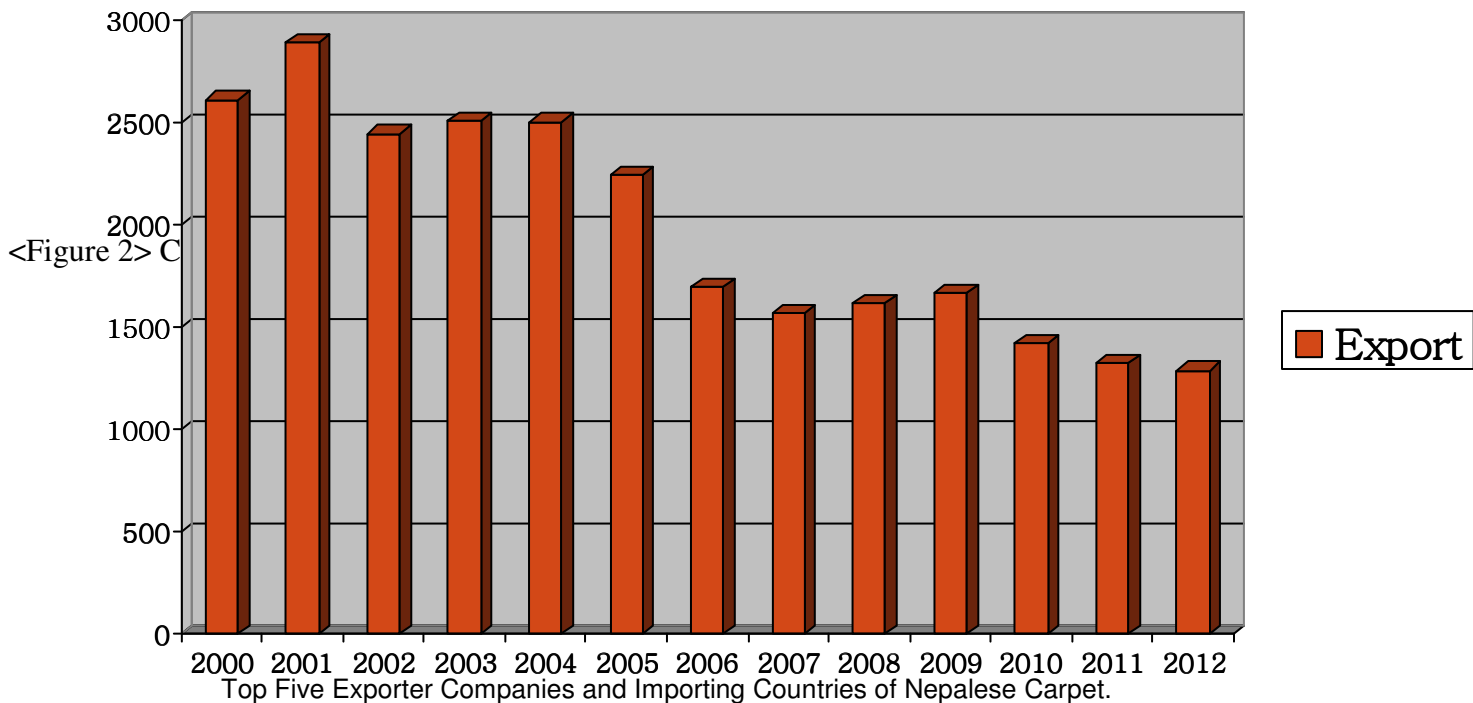
Nepal Had a Civil War for over 10 years from 1996 to 2006. The Nepalese Civil War was a conflict between

government forces and Maoist rebels. The war was started by the Communist Party of Nepal (Maoist) on 13 February 1996, with the aim of overthrowing the Nepalese monarchy and establishing the "People's Republic of Nepal." It ended with a Comprehensive Peace Accord signed on 21 November 2006 which is now monitored by United Nations Mission in Nepal. A bloodiest tear has been come out from this war, nearly 20000 Nepalese have given their life and thousand of other has been injured and displaced. This war pushed Nepal to the one the poor nations the world, during war, crimes were upped, the destroying of industries were high. This war effected Nepal to every sector.

This Civil War of Nepal is really expensive for the industries of Nepal there is not any industry that doest affected. One of the main reason behind the great depression on the carpet industry of Nepal is the this Civil War, not only because Maoists strike the industries by taking out the labor from the industry but also they did ate the sheep and disturbing in the process of Sheep keeping.. It is because Maoists organization began from the mountain Area, where there sheep are keep for the wool.

### Using the Child in Carpet Weaving

Getting education is the rights of the children but however children are using in hard labor, and the carpet industry is one of main industry where there is been using the child labor. The handmade carpet industry exploits nearly 300,000 children in South Asia and is a major "employer" of child labor. Children ages 4 to 14 are kidnapped or trafficked, then sold into debt bondage or forced labor. A study by the ILO found that it would cost \$760 billion to end child labor, but the benefits to the economy would be more than six times that—an estimated \$5.1 trillion in



Top Five Exporter Companies and Importing Countries of Nepalese Carpet.

Exporting Company Name	Quantity	Importing Country Name	Value
Paramount Carpet Industry	23,405sqm	USA	\$29.80 million
Himalayan Art Carpet	23,394 sq.	Germany	\$11.99 million
NP Rugs Industries	20,942sqm	UK	\$5.03 million
Third Eye International	18,378sqm	Canada	\$2.95 million
Shangrila Carpet & Handicrafts	17,171sqm	Belgium	\$1.40 million

Sources: NCEA( Nepal Carpet Association(2016)

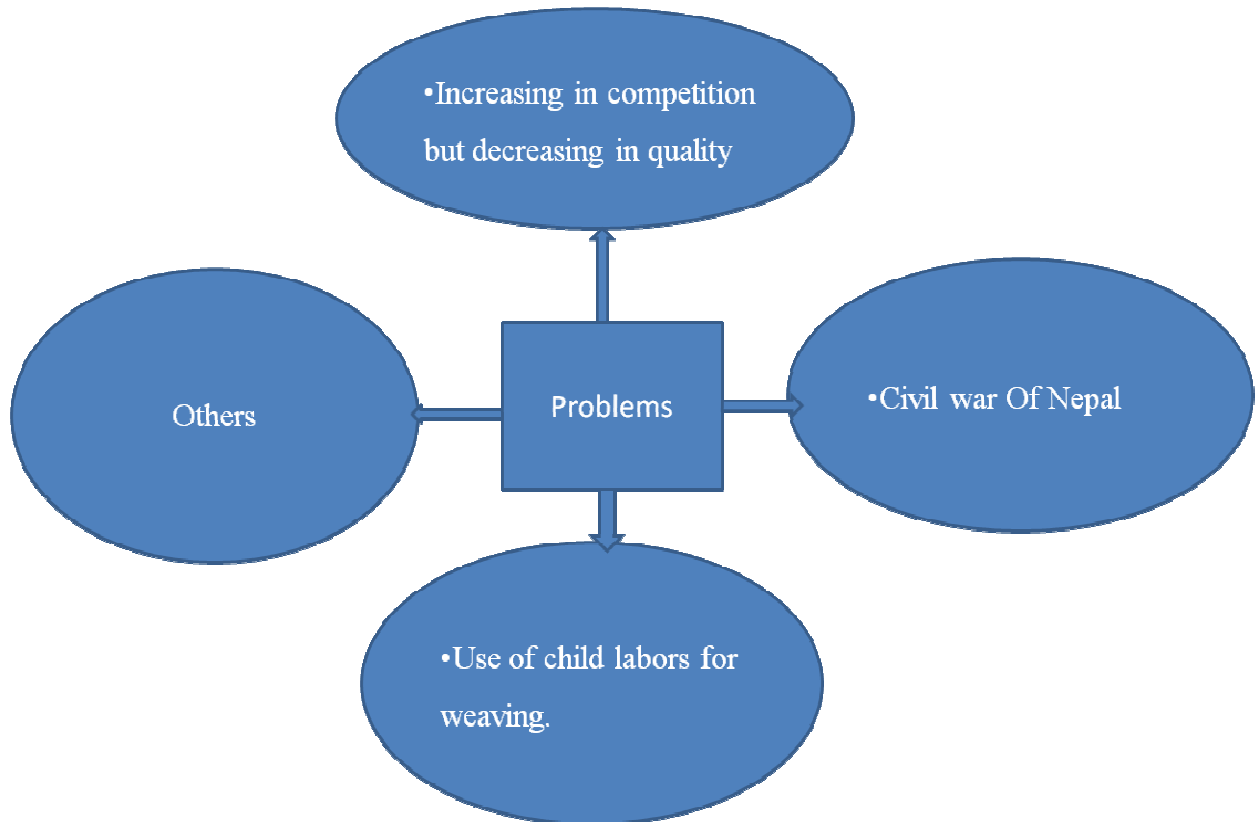
**Figure 2.** Total Quantity of carpet, which exports overseas from Nepal

economies where child laborers are found. According to ILO Statistics shows that of about 7 million children between 5-14 years old working in Nepal, about 3 million are found to be regularly working and 1.7 million children are found to be economically active. It is so sad that Nepal is also found using the child labor in the carpet industry. Using the children in the weaving of carpets , make its reputation very weak in the international market and as well Germany and US which are consider as big consumer of Nepalese carpets, has taken very seriously this issue. But it is good news, Nepal, child labor in carpet production has dropped from 11% in 1996 to 3% today.

(Figure 4 & Table 5)

**Others**

1. Lack of reforms in the production system hampering productivity, organized production and supply of carpets
2. Upgrading and maintaining carpet quality- since carpet is not a full time job, most of the labor involve in carpet weaving is unskilled and



**Figure 3.** Problems of The Carpet Industry

primarily depend on agriculture, so they don't know the importance of quality of a carpet and don't give much attention to quality aspect

3. Less facilitate adequate infrastructure, communication channels for marketing, proper finance assistance to Nepalese exporters for the quantitative and qualitative improvement of Nepalese carpet industry.
4. According to Exporters, their Indian counterparts are selling substandard carpets under the name of 'Indo-Nepal Carpet' at a cheaper price. This has jeopardized the image of Nepali carpets.
5. Shortage of skilled carpet weavers- Due to lack of skilled labor, the labor cost are surging. There is an urgent need of training of weavers to fill the gap. Another fact is that the new generation is not keen to learn carpet weaving techniques. If sufficient efforts are not made then in coming years carpet weaving will face the threat of weavers extinction
6. Lack of modern production facilities particularly

dyeing, washing, processing, designing etc.

7. Shortage of carpet raw material-grade wool.

### **INDUSTRIALIZATION STRATEGY OF CARPET INDUSTRY OF NEPAL.**

To get rid of from this kind of problem and do recover on the carpet industry Nepal should do a lot of hard work. Nepal should do the micro investigation on this field. But however there are some major solution that could bring positive result. Those are as follows

1. Export Strategy
2. Marketing Strategy.
3. Cultural Product Strategy.
4. Others

### **EXPORT STRATEGY**

This is the age of the international trade and the competition, every country has to do a lot of exercise for survive in this age. Especially for the developing country

**Table 5.** Total export and Import comparison between China, Nepal and India in 2009

Country	Export	Import	Balance of payment
China	\$1204billion	\$954.3 billion	259.30billion trade surplus
Nepal	\$0.849 billion	\$5.26 billion	4.41 billion trade deficit
India	\$168.2 billion	\$274.3 billion	106.20 billion trade deficit.

Source: CIA world fact book (2010)



**Figure 4.** Working children for weaving the carpets

like Nepal are facing a lot of problems because of high competition, so to minimize this problem Nepal should have to improve on its exports by taking the good exporting strategy. For making the good exporting strategy every country should have to understand the WTO at first and using the exception of this organization.

Exporting strategy of Nepal does not seem to be in a good tune. Nepal is one the landlocked country lies between India and China, where there is not any sea port. So most of the trading are limited only with the India and facing the trade deficits continuously. If it wants to export its products like carpets to the European and American markets it has to take the way of India, which is consider as the one good producer of carpet itself. So this is the reason that exporting of the carpet is not giving the handsome return.

Nepal must need reach to the European and American countries where there is the high demand of the Nepalese hand knotted carpets. We have the one table those countries. (Table 6)

This data is indicating one important thing, that is Nepal has trade relationship with different countries and can export the carpets to different countries but however Nepal always facing the problem in the international trade because of its geographical structure. It is landlocked country it does not have the sea port. Reaching to the European and American countries in the cheap price is very difficult for Nepal. In the European and American countries like Germany and the USA there is plenty of demand of Nepalese hand made carpet but , somehow

Nepal is unable to give full satisfaction to those countries. One of the main reasons behind it is the problem of the transportation. To solve this problem it would rather to build the dry port through the Tibet. And secondly Nepal should have to understand the norms and regulation of the WTO and use their exceptions which are in favor of the developing countries

1. Understanding the WTO, and accepting its exception which are in favor of the developing countries
2. Determination of export target countries with special design

Nepal is one of the members of WTO, so it has to follow the path of the international organization. WTO has been conducted the principle of MFN. Binding tariffs, and applying them equally to all trading partners (most-favored-nation treatment, or MFN). The WTO agreements uphold the principles, but however there also allow have some exceptions — in some circumstances. Three of these issues are:

1. Dumping the good
2. subsidies and special “countervailing” emergency
3. safeguard for domestic industries

This exception sometimes makes easier for the developing countries and some times appears as a trouble. Dumping the good and subsidies are taken as the negative part of developing countries. If a company



**Table 6.** Top 20 exporting Countries of Nepal

S.N	Country Name
1	India
2	USA
3	Bangladesh
4	Germany
5	China
6	UK
7	France
8	Italy
9	Canada
11	UAE
11	Japan
12	Singapore
13	Turkey
14	Australia
15	Belgium
16	Hong Kong
17	Switzerland
18	Netherland
19	Denmark
20	Spain

Source: TEPC(2016)

exports a product at a price lower than the price it normally charges on its own home market, it is said to be “dumping” the product. And if any company provided by the some kind extra facilities by the government that normally called subsidies. In order to capture the market the powerful and the rich country like to dump the price as well as providing the subsidy to their company which makes them strong in competition but it create the unfair trade. So in the carpet industry also this kind process might exit so Nepal should have tried to investigate on this and use the antidumping and countervailing law against those countries. But however safeguard for domestic industries is the relevant exception for developing countries. Safeguard means the restriction on import for sometime, when any imported products really damaged the domestic industry. The carpet industry of Nepal has lost its domestic market because of the cheap and less quality carpet from India and china. So in this condition Nepal should better to restrict on carpet importing by using the exception of Safeguard for domestic Industry under WTO.

Nepal needs to determine of the targeted country of its carpet export. The data shows that the US and Germany is the biggest consumer of the carpet and as well these countries were very good consumer of Nepalese carpet too, once in a time. So Nepal must keep the US and the Germany as the targeted for exporting its hand knotted carpets

### Marketing Strategy

Marketing is something very important for any product to create its market so we can it is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. It includes mainly 4 important things for creating the value of goods and services that are Products, price place and Promotion that’s the reason we can say marketing mix is 4ps.(Figure 5)

1. Product
2. Price
3. Place
4. Promotion

We can classify above four part of the marketing mix into two parts that are as follows.

1. Product research in carpet industry
2. Appropriate distribution system

Let’s talk about the production research at first and the distribution at second.

### Product research in carpet industry

As we know that the carpet industry of Nepal has already

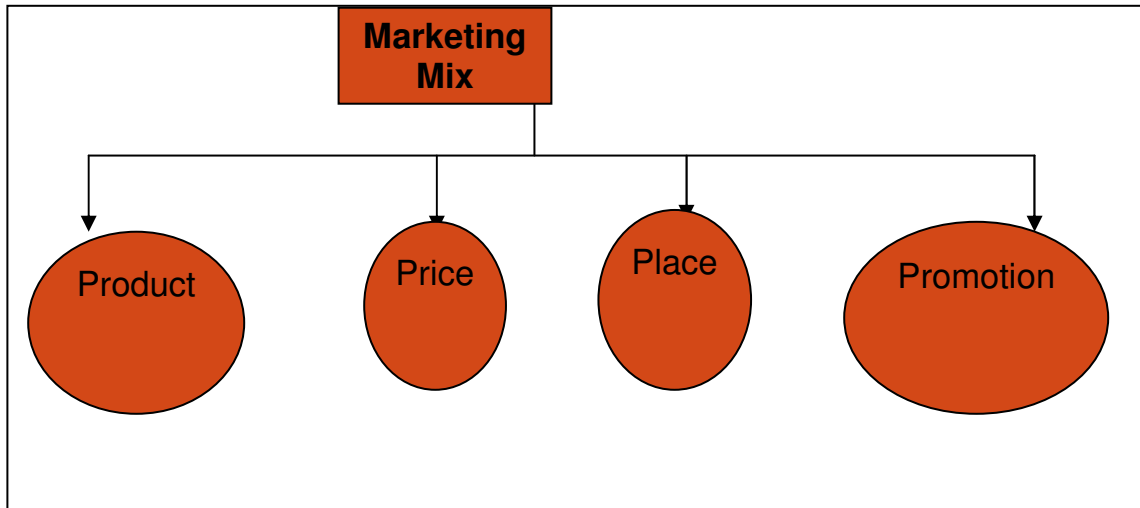


Figure 5. Marketing Mix

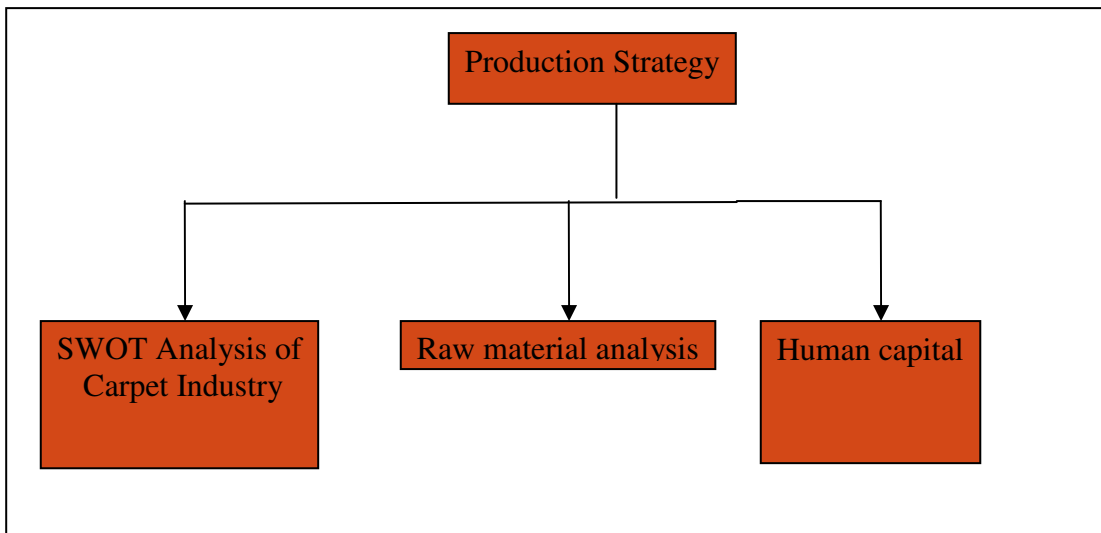


Figure 6. Production Strategy

proven that it can earn the foreign currency by exporting the product in the international market by provided numbers of Jobs. In the past the products of Nepalese carpet was very famous but today the same product is become worthless so it needs to rethink about to improve and produced the new style product which might be suitable for today's world. Nepal has to think and follow the production Strategy like this way. (Figure 6)

SWOT Analysis of Carpet Industry

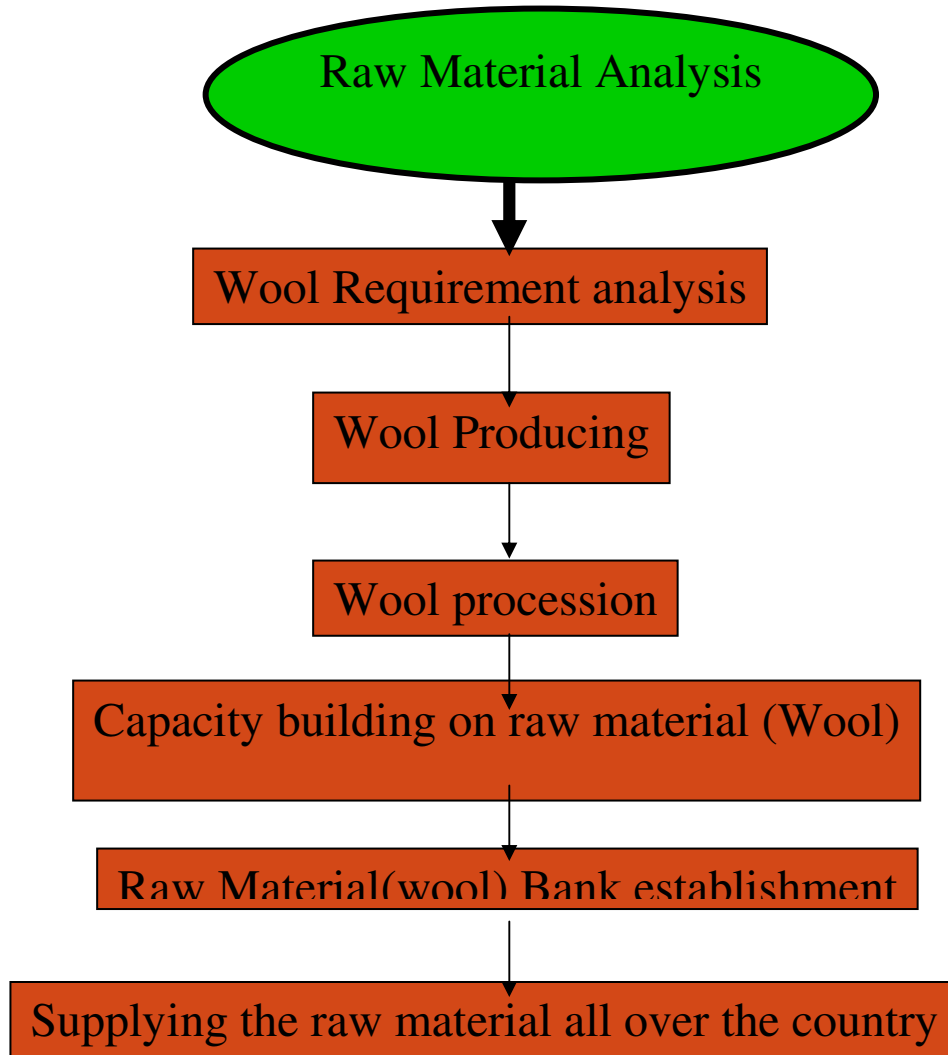
- S= Strength
- W= Weakness
- O= Opportunity

T= Threat

SWOT analysis is the kind of scientific analysis of the industry, the meaning of SWOT is as follows

Before making any kind of production strategy of carpet industry, Nepal should have to analysis these things and try to make good policy on the production.

In the SWOT analysis Nepal keeps strength on the keeping of sheep in the big farm house, because sheep normally like the Himalayan area and exactly Nepal is one Himalayan country



**Figure 7.** Raw Material Analysis

Nepal does not have the sea port, so while exporting the finished carpet it has problem and it is the weak point.

Nepal is still making the carpet by traditional style using the traditional equipments and totally handmade so it can be the opportunity for Nepal by giving the introduction of the cultural goods in the European and American markets.

Nepal lies between two big and the strong countries India and China, it has to do competition with these countries so it might be threat of the country. (Figure 7)

### Human Capital

Most of the people think capital means a bank account, shares of the company or Cash something like that. But apart from these capitals there is need another important capital for economic success that is non other than

human capital.

Human capital consist firstly human and their skills. To produce one product it needs many steps like as collecting of raw materials, processing it and inputting and finally producing products so the journey of making human to human capital need trained by different ways. Like as to Schooling, a computer training course, expenditures on medical care, and lectures on the virtues of punctuality and honesty. That is because they raise earnings, improve health, or add to a person's good habits over much of his lifetime. Therefore, economists regard expenditures on education training, medical care, and so on as investments in human capital. In the carpet industry of Nepal, labor is always standing as the big problem, either that is raisin the blame of using child labor or that would the unskilled labors. In the short word because of the human capital Nepalese carper industries always faced the difficulties so Nepal needs improve the

human capital by giving the training , sending them to the foreign country like Indian and China where there is a lot of carpet industry can found.

### Appropriate distribution system

For Appropriate distribution system Nepal should have to think the rest of the three part, price place and promotion. After making the one beautiful product, that needs to take into the market. When it comes in the market the three thing price place and promotion equally plays the important role for the success of the products. So marketing strategy tell us , one product must offer the accurate price to customer with taking that in the right place in right time with exercising the necessarily promotion for the success of the industry. In this regard if we apply this strategy to the Nepalese carpet industry then we can say that Nepalese carpet must put good price with respect of the Indian and Chinese carpets with taking it in the European and American markets with the good advertising by saying that it is the product of Himalayan pure raw material weaving by the traditional style.

### Cultural Product Strategy

Weaving of the carpet is consider as the art and beauty, creating the different kind of figure with wool by hand in the carpet , which can represent the feeling of human and it has been weaving for long time, in the period of before modernization and still weaving in the same style in Nepal. Carpet Industry is the one of ancient industry of Nepal. In the world everyone loves the ancient goods. In this modern age somehow we hardly find the product which totally made by traditional style. That's the reason that many people love the traditionalism and culture in these days, because from the cultural product anyone can learn many more thing of history. Carpet industry of Nepal is the one of the case it is still making by the traditional styles and traditional equipments. Nepalese carpets are made by hand by people. It is totally labor incentives product of Himalayan republic of Nepal .keeping the sheep in the Himalayan area and producing the wool and processing them in the traditional style and finally weave by the hand. European and American are really interested in the Asian culture, in the regards Nepal better to take the advantage of it's by presetting of its carpet industry as a symbol of cultural product.

### Others

1. Nepal should have to remain on quality

consistency. Quality consistency is essential to remain competitive in the overseas market which need of quality wool ,proper blend proposition and skilled weaver

2. There is a huge shortage of carpet weavers (especially for hand-knotted carpet) as most of the weavers shifted to NREGA scheme which is providing more wages per day. So skill development programs should run more rapidly by government agencies of Nepal
3. Emphasis should be given on the R&D activities in terms of raw material, machine development.
4. There needs some job security and minimum salary requirements of the weavers to attract the new generation.

### CONCLUSION

Industry is the core element of economic development and is crucial for the developing countries because of their high unemployment rate. Industry can minimize the unemployment rate by enforcing job opportunities. It further helps economic development by acquiring the foreign currency through exporting their products. But industries in developing countries are still in infant stage because of unskilled labor force and high competition. It is the reason behind brink of dissolves many industries where some have already been disappeared. Regarding the above context, this study has tried to find out the problems behind such inabilities for succeed industrialization and suggest remedies focusing through "Industrialization Strategy of Nepalese Carpet Industry". Carpet industry is one of the ancient industry of Nepal and has comparative advantage because it is the agricultural manufacturing industry which is consider as labor incentive industry. This kind of industry exactly need to the Nepal which is still developing stage.

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**Annex photo graphs of Carpet finishing****Wool Sorting**

**Hand Carding \_\_\_\_\_ Wool Spinning**



**Weaving / Knotting**

