

A Preliminary Study of the Private Sector of Nepal's Manufacturing Industry

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Introduction

Nepal has now entered its fourth decade of 'planned development' begun in 1956 with the launching of its 'First Plan' which, like all subsequent 'Plans', it should be noted, was contingent on foreign aid. One consequence of Nepal's dependence on foreign aid for its industrial development in particular is that machine based manufacturing, at least up to the latter half of the 1970s, has tended to be the preserve of the government, even in those fields of manufacturing usually associated with the private rather than the public sector of production, leather footwear, for example.¹

The insignificant role played by private capital in Nepal's industrial development such as it was up to the mid 1970s, is outlined by Stiller and Yadav (1979:152-55) and in detail for the Central-West region of Nepal by Blaikie, Cameron and Seddon (1980:188:212). For the subsequent period, the decade covering the late 1970s to the mid 1980s, scholars have had little to say on the matter. Yet, information recently published by the Department of Industry in Nepal suggests that private capital's level of participation may have reached a turning point in this period. The Department of Industry's publication reveals that all 79 'Medium' size manufacturing enterprises which were operating during 1980-1983 as well as 24 of the 36 'Large' established in this same period, were registered as "Private, Ltd." companies (1984:189). Given that officially 'Medium' refers to an enterprise with an investment between Rs 2 and 10 million in fixed assets (principally, machinery) and 'Large' refers to one with fixed assets in excess of Rs 10 million, then it might be claimed, albeit tentatively, that in the 1980s private capital's participation may be much more intensive than in the past.

Apart from the uncertainty concerning the magnitude of the private sector of Nepal's current manufacturing industry, there is also a great deal of uncertainty about the way this sector is constituted, since very little information is available in the current literature. As far as I am aware there is no published information about the owners of the enterprises, themselves. It is the general aim of this paper to outline in fairly broad terms some of the major components of the private sector as it was constituted in 1985.

The data upon which this paper is based were extracted from the 'licence' and 'registration' records held at the Department of Industry in November, 1985. Needless to say this data need to be supplemented by data that can only be obtained from the personnel of the

various enterprises involved, a task which is planned as part of the second stage of the research project. Nevertheless, it seems advisable to try to publish the results of this first stage of the inquiry in order to disseminate the information gathered, since there is so little available, on the subject in the literature dealing with the current situation of industrialisation in Nepal, as far as manufacturing is concerned.

In presenting the results of the present inquiry, the emphasis is on description and not to resolve theoretical issues that may be implicitly or explicitly raised by the data. Those issues, it is felt, may be more appropriately addressed once the second stage of the inquiry has been completed. This does not mean that no theoretical issues will be explored. It means, rather, that whilst they may be sometimes raised explicitly, they will not be elaborated on or argued to their logical and sociological limits.

MAIN RESULTS

The Magnitude of the Private Sector

The records at the Department of Industry revealed that in November 1985 there were 544 operating industrial enterprises in Nepal, each with fixed assets in excess of Rs 200,000. Another 204 have applied to be licenced but these were not as yet registered as operating enterprises. Applying the criteria used by the Department of Industry and endorsed by the Industrial Enterprises Act, 1981, the 544 industrial concerns which were operating in 1985, were classified in terms of size, 'small',² 'medium' or 'large' and in terms of whether they were government owned ventures (public sector) or privately owned (private sector). The resulting pattern is presented in Table 1.

Table 1: *Size of Enterprise*

| Sector | Small (n=304) | Medium (n=196) | Large (n=42) | Total (n=542)* |
|---------|------------------|-------------------|-----------------|-------------------|
| Private | 99.3 | 94.9 | 64.3 | 95.1 |
| Public | 0.7 | 5.1 | 35.7 | 4.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

*Information on level of investment was not available for two enterprises both belonging to the private sector.

On the basis of this pattern of results, there can be little doubt that in 1985, the magnitude of the private sector's participation in industrial manufacturing outstrips that of the public sector. In view of the fact that in the past, the private sector has tended to be dwarfed by the public sector, as noted earlier, then the changes in that

relationship must be a fairly recent phenomenon - exactly how recent is revealed in Table 2.

Table 2: *Size of Enterprise in the Private Sector*

| Period when enterprise was registered | Small (n=302) % | Medium (n=186) % | Large (n=27) % | Total (n=515) % |
|---------------------------------------|--------------------|---------------------|-------------------|--------------------|
| Before 1975 | 42.7 | 22.6 | 11.1 | 33.8 |
| 1975 - 1980 | 35.1 | 16.1 | 22.2 | 27.7 |
| 1980 - 1985 | 22.2 | 61.3 | 66.7 | 38.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

It can be readily discerned from the figures in Table 2 that two-thirds of the enterprises were registered during the period 1975-85 and more tellingly that a very high proportion of 'Medium' (61.3%) and an even higher proportion of the 'large' (66.7%) were in fact registered between 1980 and 1985. Therefore, not only is the level of private capital's participation significantly higher today than it has ever been in the past, but also, its entry at this relatively high level of investment has occurred most dramatically during the 1980s. But in which particular fields of production are the enterprises of this sector engaged?

Main Fields of Production

The records revealed that there were 127 different commodities being produced by the public sector of manufacturing during 1985. For the purposes of crosstabulation, these have been classified into seven broad categories of commodity production;

1. 'food and drink';
2. 'garment';
3. 'building construction';
4. 'household durables';
5. 'health';
6. 'education';
7. 'miscellaneous'

The proportions of each of the different size enterprises engaged in these seven fields of production are given in Table 3.

It appears that just over three-quarters (77.2%) of the enterprises were engaged in producing commodities falling into one or other of three categories 'food and drink', 'garment' and commodities used in 'building construction'. Moreover, 82.2% of the 'large' enterprises

and 82.3% of the 'midimum' were operating in these three fields of production. Of the 'large' enterprises, one-third are engaged in producing commodities aimed at the 'building construction' market whilst the highest proportion (30.1%) of the 'medium' size concerns were engaged in garment manufacturing and of the 'small' businesses the highest proportion (37.8%) was producing for the 'food and drink' market.

Table 3: Size of Enterprise

| Field of Production | 'Small' (n=302) % | 'Medium' (n=186) % | 'Large' (n=27) % | Total (n=515) % |
|-----------------------|-------------------------|--------------------------|------------------------|-----------------------|
| Food and drink | 37.8 | 29.6 | 22.3 | 34.0 |
| Garment | 16.2 | 30.1 | 29.6 | 21.9 |
| Building construction | 19.5 | 22.6 | 33.3 | 21.3 |
| Household durables | 5.0 | 3.2 | 3.7 | 4.3 |
| Health | 5.6 | 4.8 | 0.0 | 5.0 |
| Education | 3.0 | 2.2 | 3.7 | 2.7 |
| Miscellaneous | 10.6 | 5.9 | 7.4 | 8.7 |
| No. Information | 2.3 | 1.6 | 0.0 | 2.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

If it is assumed that entrepreneurs respond to market demands or to the particular opportunities that these demands proffer, then perhaps, the burgeoning of the tourist industry and the internal migration of populations from the rural to the urban centres such as Kathmandu that have accelerated since the mid 1970s, may be seen as important factors propelling private capital in the production of commodities for the 'food and drink', 'garment' and 'building construction' markets. However, in the case of 'garment' production there is an additional factor especially since garment manufacturing is largely a post 1980s phenomenon since the great majority of 'medium' and 'large' enterprises of the private sector, as we have already seen, were established in this particular period. In this instance the additional factor is not one emanating from within Nepal but outside it. During the period in question India had imposed quotas on exports of garments. To short-circuit this constraint, some Indian entrepreneurs, according to some of my Nepali informants, have taken advantage of the fact that Nepal does not impose such quotas and are therefore producing in Nepal for export purposes. The extent to which this has in fact occurred is not known but its occurrence would help to explain the emergence of 'garment' manufacturing in Nepal as an industry of such magnitude during the 1980s. Moreover, if the Indian situation is a major factor then this avenue of private capital's speculation is highly precarious from the point of view of those Nepalese entrepreneurs that may be involved.

From a theoretical point of view, the case of 'garment' manufacturing may be seen as a particular instance which supports Blaikie, Cameron and Seddon's (1980) 'Centre/periphery' thesis but this cannot be asserted conclusively in the absence of any firm evidence that it is primarily Indian private capital that sponsors the 'garment' industry in Nepal. We shall return to this issue later. In the meantime, let us continue to sketch the general outline of the Nepalese private sector of industrial manufacturing. The next point we might consider is its profile in terms of the Nepalese forms of ownership, or 'legal status' of the firms involved.

Form of Ownership or 'Legal Status' of Enterprise

A privately owned industrial concern in Nepal may be registered in one of three categories, designating the legal status of that enterprise 'Private Ltd. Company,' 'Partnership' and 'Sole Proprietor.' The pattern of distribution of these three forms of legal ownership among the three different categories of size is shown in Table 4.

Table 4: Size of Enterprise

| Legal status of enterprise | Small (n=302) % | Medium (n=186) % | Large (n=27) % | Total (n=515) % |
|----------------------------|-----------------------|------------------------|----------------------|-----------------------|
| Private Ltd. Company | 87.0 | 76.9 | 96.3 | 83.4 |
| Partnership | 1.7 | 8.6 | 3.7 | 4.3 |
| Sole Proprietor | 10.3 | 14.5 | 0.0 | 11.3 |
| No information | 1.0 | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

The private sector of manufacturing, it is evident from the results in Table 4, is 'company business', so to speak. In a caste society like Nepal, one wonders whether co-owners of the same company are of the same caste (or in contemporary official terminology of the same ethnic group)? There is also another but theoretically sound reason to explore this question.

Since the growth of the private sector of manufacturing is a very new phenomenon, as we have shown, and this 'new born' wealth is organized principally in the form of 'company', then what we may be witnessing is the formation of private industrial capital of some magnitude, or, to put it differently, the emergence of a 'new' class in Nepal, the owners/ controllers of this newly formed industrial capital. Therefore, to identify the caste/ethnic composition of this 'new' class is important from the point of view of theories about development/under-development such as the 'dependency' theory that has already been

applied to Nepal (see Blaikie, Cameron and Seddon, 1980) but which does not cover the period in question, post 1980. Now, to turn to the empirical evidence relating to this issue.

The Caste/Ethnic Composition of the Owners of Companies

The relevant information pertaining to the question in hand is given in Table 5.

Table 5: *The Caste/Ethnic Composition of the Owners of Companies*

| Co-owners of Same Caste/Ethnic Origin | Private Ltd. Companies (n= 434) % |
|---|-----------------------------------|
| Parbatya (Brahmin/Chetri) | 34.0 |
| Newar | 18.2 |
| Tribal | 4.4 |
| Marawari | 17.0 |
| Indian (unspecified) | 4.4 |
| Co-owners NOT of same Caste/Ethnic origin | 23.0 |
| Total | 100.0 |

It appears that it is only in 23.0% of the cases that we find co-owners of the same company not sharing a common caste/ethnic background, whereas this is not so for the great majority of cases. It would seem, therefore, that caste/ethnic compatibility between co-owners of a company is a major principle underlying the organisation of private industrial capital in Nepal. That co-owners of a company should appear to be concerned about caste/ethnic boundaries poses an interesting theoretical problem, since the context involved is one in which, it is generally presumed, the 'profit motive' would dominate. Be that as it may, the pattern of results points to yet another significant aspect of the social composition of what we have labelled Nepal's 'new' class.

We should note that just over one-fifth of the companies (21.4%) are owned by persons (co-owners) who are located outside the Nepalese caste system. Here, it is the Marawari co-owners who dominate (17.0% of all the companies are owned/controlled by co-owners of this particular ethnic group). Moreover, if we take into account the number of companies wherein co-ownership is heterogeneous in terms of caste/ethnicity but in which at least one of these co-owners of a company is a Marawari then the Marawari presence in this 'new' class is augmented by Marawari part ownership in 59 other companies. In addition, 20 of a total of 58 enterprises registered under 'sole proprietorship' are also owned by Marawaris. This means in effect that in approximately 30.0% of all the enterprises (irrespective of legal status) involve a Marawari ownership - whole or in part.

Given the relatively high representation of Marwaris in this 'new' class, it becomes important to study this ethnic group intensively and to monitor its industrial activities, for their entrenchment in this field may have economic, political and social implications for Nepal's future industrial development.

At this juncture, it is appropriate to consider whether the enterprises owned by members of the specific caste/ethnic groups may also be differentiated on the basis of broad fields of industrial production.

The Caste/Ethnic Dimension of Fields of Production

The relevant information concerning the relationship between field of production and caste/ethnic composition of the ownership of each enterprise is contained in Table 6.

We have already noted that enterprises in the private sector are concentrated in three main fields: 'food and drink', 'garment' and 'building construction' commodity production and that the majority of 'medium' and 'large' enterprises are engaged in one or other of these three fields of production (see Table 3). We also noted earlier, that the ownership of a significantly high proportion of these enterprises was vested in the ethnic group, Marawari, which is located outside the Nepalese caste system (see discussion on Table 4 and Table 5). Against that general background we postulated earlier that the emergence of 'garment' manufacturing as the second main field of production during the 1980s may be due to the presence of private capital owned/controlled by ethnic groups standing outside the Nepalese caste system. The evidence presented in Table 6 provides further grounds for advancing the general proposition that the 'new' class in Nepal is significantly 'foreign' (that is outside the Nepalese caste system) in its social composition and that this is most clearly evident in the field of 'garment' manufacturing.

Table 6 reveals that whilst 77.2% of all the enterprises are engaged in commodity production related to the fields of 'food and drink', 'garment' and 'building construction', significantly higher proportions of the Marawari and "Indian" owned firms are engaged in these fields (81.0% and 89.0%, respectively). In contrast of the firms owned by indigenous Nepalese caste/ethnic groups, it is only among those owned by Tribals that we find a level of participation which rivals either that of the Marawari or Indian owned firms (95.7% of the Tribal owned firms are engaged in one or other of these three fields of production). However, Tribals own the smallest number of firms, 23 of the total 517, it should be stressed. Focusing on 'garment' manufacturing, we find that only the proportions of enterprises owned by Marawari, Indian and 'mixed' caste/ethnic groups exceed that of the proportion of the total enterprises engaged specifically in garment manufacturing - 21.9% of the total of 517 enterprises are so engaged, whereas 24% of the Marawari, 32.0% of the Indian and 27.5% of the 'Mixed' (caste/ethnic group) owned enterprises were operating in this particular field of

production. If we recall that more than half of the enterprises with a 'mixed' caste/ethnic composition of ownership involve Marawari ownership then we might claim fairly confidently, that not only is 'garment' manufacturing predominantly 'foreign' in its ownership profile but also, that it is essentially a Marawari enclave. This suggests that at least in the area of 'garment' production, industrial development sponsored by private capital in Nepal may be tied to the interests of private capital in India.

For historical, geographical, political and other considerations, the preserve of Marawari and other Indian entrepreneurs in Nepal has been contained in the highly fertile area known as the Terai, bordering India. Whilst this may hold as far as entrepreneurial activity based on agricultural production, it may not necessarily apply in the case of entrepreneurship involving the industrial type of production being examined here. This constitutes the final issue I want to address using the data extracted from the records held at the Department of Industry.

The Regional Distribution of Enterprises owned by the various Caste Ethnic groups

The information relevant to our topic is presented in Table 7.

Whereas just over half of the enterprises were located in the Central Development Region (51.1%), a significantly higher proportion (70.1%) of the Newar owned concerns were located there. This is not surprising since the Central Region incorporates Kathmandu Valley where in the capital or the largest and fastest growing urban settlement in Nepal is located and therefore presents the major domestic market for the commodities involved and is as well, the ancestral homeland of the Newars, so to speak.

What is somewhat surprising, is that such a high proportion (45.7%) of the Marawari owned enterprises should be located in the Central Region - a far larger proportion than for any other group bar the Newars and the 'Mixed'. More than half of the latter, it should be recalled, involve a Marawari as a co-owner. Therefore, the Marawari presence in this Region in terms of ownership, is even more extensive than we might assume at first glance. Certainly, on the basis of the evidence presented in Table 7, it cannot be categorically maintained that the Marawari interests nor those of Indians, generally, are contained in the Eastern Development Region.

Whilst this is as far as the data from the records permit us to go in sketching the social anatomy of private industrial capital in Nepal, this exploration would be gravely inadequate if we were to say nothing about the labour power that this newly constituted industrial capital commands. If as I have tried to argue, the owners/controllers of this industrial capital constitute a 'new' class in this predominantly agrarian society, then this automatically entails the emergence of a 'new' working class, the industrial workers who provide the labour power for the industrialists.

A 'New' Working Class

Unfortunately, information about the workers in each of the enterprises was not available in the records examined for this study. The Department of Industry, itself, relies on periodical sample surveys to obtain such information. This research method of obtaining information, as already stated, was not used for this stage of the present inquiry. But since the issue is extremely important, we might, with some caution, utilise the material, contained in the Department of Industry's publication (1984). In that publication the Department of Industry provides detailed information relating to labour on each of 155 non-government manufacturing enterprises operating during the fiscal year 1983/84. Although it does not relate specifically to enterprises in operation in 1985 but to the previous year, it may, nevertheless, be a useful starting point to explore the issue at hand.

First of all, the private sector as represented in the Department's survey, consists of:

94 (60.7%) 'Small'
52 (33.5%) 'Medium'; and
9 (5.8%) 'Large' enterprises.

This pattern of distribution in terms of 'size' is comparable to that based on all enterprises in this sector in 1985, as outlined earlier. Thus we may, perhaps, use the Department's survey data with some confidence for our purposes.

Focusing on the question of labour, we find that the private sector in 1983/84 employed a total of 31,222 persons. The way this workforce is distributed among the various size enterprises and in terms of the workers' national identity ('Nepalese'/'Foreign' can be seen in Table 8).

Table 8: Employees in Each 'Size' Enterprise

| Nationality of Employee | Small (n= 6,964) % | Medium (n= 7,826) % | Large (n= 16,432) % | Total (n= 31,222) % |
|-------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| Nepalese | 90.7 | 77.4 | 85.0 | 84.4 |
| 'Foreigner' | 9.3 | 22.6 | 15.0 | 15.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

As might be expected, more than 3/4 of this industrial workforce (77.7%) is employed by the 'Medium' and 'Large' enterprises. It is in these enterprises, however, that a significantly high proportion of 'foreign' workers are also found (22.6%, 'Medium' and 15.0% in

'Large', respectively). In contrast, 'Small' enterprises appear to employ a relatively small proportion of 'foreign' workers. Given that the majority of the 'Medium' and 'Large' enterprises in this sector are not located in the Terai and given that 'foreign' workers refers mainly to persons from India, then the 'new' working class would seem to be divided into major ways; first, its indigenous component is likely to be divided along caste lines; and secondly, its 'foreign' component would tend to divide the working class as a whole into two distinct National groups, Nepalese and Indian. How these divisions of the 'new' working class relate to corresponding divisions within the other 'new' class, that which owns/controls the factories, is an important question. But unfortunately it is an issue which we cannot explore empirically, since the caste/ethnic identity of the owners of these enterprises is not given in the Department of Industry's publication. Without this kind of information it is not possible to explore the very important topic of class relations in this very new Nepalese context. Further research in this field is necessary not only for theoretical reasons but also for policy decisions concerning Nepal's future pattern of industrial development.

NOTES

1. For an excellent assessment of other major consequences of foreign aid based planned development see Intergrated Development Systems (1984) and for detail account of development, generally, see Wake (1980). For an assessment of planning policies see Gurung (1985).
2. Definitions for 'medium' and 'large' have already been noted (see Introduction,). A 'small' enterprise is defined as one with fixed assets worth less than Rs 2 million but no less than Rs 2000,000.

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