

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 particular consequence of Nepal's dependence on foreign aid for its industrial development is that machine-based manufacturing, at least up to the latter half of the 1970s, has tended to be the preserve of the government. This is true 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 up to the mid 1970s, such as it was, 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). Scholars have had little to say for the subsequent period, the decade covering the late 1970s to the mid-1980s. Yet, recently published information from 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 operating during 1980-1983, as well as 24 of the 36 'Large' ones established in this same period, were registered as 'Private, Ltd.' companies (1984: 189). Given that 'Medium' officially 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 tentatively claimed that private capital's participation in the 1980s may be much more intensive than in the past.

Apart from the uncertainty concerning the magnitude of the private sector

in 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. No information on its social composition in the 1980s comes to my attention. 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 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 possible theoretical issues raised implicitly or explicitly by the data. Such issues may be more appropriately addressed once the second stage of the inquiry has been completed.

MAIN RESULTS

1. The Magnitude of the Private Sector

The records at the Department of Industry reveal that in November 1985 there were 544 operating industrial enterprises in Nepal, each with fixed assets in excess of Rs. 200,000. Another 204 had applied for licenses, 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 operating in 1985 were classified in terms of size 'small'¹, '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) ²
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

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 outstripped that of the public sector. Since the public sector previously tended to dwarf the private sector, the changes in that relationship must be a fairly recent phenomenon - Table 2 reveals exactly how recently.

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	100.00	100.0	100.0	100.0

It can be readily discerned from Table 2 that two-thirds of the private 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%) enterprises were registered between 1980 and 1985. Therefore, not only is private capital's level of participation now significantly higher 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?

2. Main Fields of Production

The records reveal that there 127 different commodities were being produced by the manufacturing public sector during 1985. For the purpose of cross tabulation, 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 below.

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
	100.0	100.0	100.0	100.0

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

Assuming that entrepreneurs respond to market demands or to the particular opportunities that these demands proffer, the burgeoning of the tourist industry and the internal migration of populations from the rural to the urban centers such as Kathmandu since the mid-1970s are important factors propelling private investment into 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. The great majority of 'medium' and 'large' enterprises of the private sector garment manufacturing enterprises were established in this particular period. The additional factor emanates from outside Nepal. During the period in question, India had imposed quotas on exports of garments. Nepali informants tell me that to overcome this constraint some Indian entrepreneurs took advantage of the lack of such quotas in Nepal. The extent to which Indian carpet manufacturers have indeed established themselves in Nepal is not known, but

its occurrence would help to explain the great magnitude of the emergence of 'garment' manufacturing in Nepal 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 Nepalese entrepreneurs involved.

From a theoretical point of view, the case of 'garment' manufacturing supports Blaikie, Cameron and Seddon's (1980) 'Centre/periphery' thesis. Firm evidence of the extent of Indian private capital involvement in the 'garment' industry in Nepal is needed to make a firm conclusion. Before returning to this issue, the next point in the sketch of the general outline of the industrial manufacturing private sector is a profile of the Nepalese forms of ownership, or 'legal status,' of the firms involved.

3. 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 the 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 is primarily 'company business'. 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 bound reason, to explore this question.

Since the growth of the private sector of manufacturing is a new phenomenon, and this 'new born' wealth is organised principally in the form of 'company', then what we may be witnessing the formation of private industrial capital of some magnitude. To put it differently, a 'new' class is emerging in Nepal; the owners or controllers of this newly formed industrial

capital. Identification of the caste or ethnic composition of this 'new' class is important from the point of view of theories about development and underdevelopment, such as the 'dependency' theory that has already been applied to Nepal (see Blaikie, Cameron and Seddon, 1980) but does not cover the period post 1980 in question. Now, to turn to the empirical evidence relating to this issue.

4. The Caste/Ethnic Composition of the Owners of Companies

The relevant information pertaining is given in Table 5.

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

Co-owners of some 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

In only 23.0% of the cases are co-owners of the same company not sharing a common caste/ethnic background. Caste/ethnic compatibility between co-owners of a company appears to be a major principle underlying the organisation of private industrial capital in Nepal. Such an apparent concern about caste or ethnic boundaries poses an interesting theoretical problem, since it seems that the 'profit motive' would dominate. This pattern points to yet another significant aspect of the social composition of Nepal's 'new' class.

Over one-fifth of the companies (21.4%) are owned by person (co-owners) located outside the Nepalese caste system, with Marawari co-owners predominating (17.0% of all the companies are owned/controlled by co-owners of this particular ethnic group). Moreover, considering the companies of heterogeneous co-ownership in which at least one of these co-owners is a Marawari, the Marawari presence in this 'new' class is augmented by Marawari part ownership in 59 other companies. In addition, 20 of total of 58 enterprise registered under 'sole proprietorship' are also owned by Marawaris. This means in effect that approximately 30.0% of all the enterprises involve a Marawari ownership in whole or part (irrespective of legal status).

Given the relatively high representation of Marawaris in this 'new' class, it

becomes important to study this ethnic group intensively and to monitor its industrial activities, as their entrenchment in this field may have economic, political and social implications for Nepal's future industrial development.

5. The Caste/Ethnic Dimension of Fields of Production

Data relating the field of production and caste/ethnic composition of the ownership of each enterprise is contained in Table 6.

Table 6: Caste/Ethnic Ownership of Enterprise

Field of Production	Parbatya (n=165)	Newar (n=87)	Tribal (n=23)	Marawari (n=94)	Indian Unspeci- fied (n=28)	Mixed (n=120)	Total (n=517)
Food and drink	38.3	24.1	61.0	36.8	32.0	29.2	34.0
Garment	17.0	18.4	21.7	24.0	32.0	27.5	21.9
Building Construction (products)	22.4	22.0	13.0	20.2	25.0	20.8	21.3
Household durables	1.8	10.3	0.0	5.3	4.0	3.3	4.3
Health (products)	4.8	6.9	0.0	4.3	0.0	4.2	5.0
Education (products)	3.0	3.4	0.0	2.1	0.0	3.3	2.7
Miscellaneous	7.7	13.8	4.3	5.4	7.0	7.5	8.7
No information	3.0	1.1	0.0	0.0	0.0	4.2	2.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

This table provides further grounds for advancing the general proposition that the 'new' class in Nepal is significantly 'foreign' (i.e., outside the Nepalese caste system) in its social composition. This is most clearly evident in the field of 'garment' manufacturing.

Table 6 reveals that although 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 (80.0% and 89.0%, respectively). Of the firms owned by indigenous Nepalese caste/ethnic groups, only those owned by Tribals rival either the Marawari or Indian owned firms (95.7% of the Tribal owned firms engage in one or other of these three fields of production). However it should be stressed that Tribals own the smallest number of firms, 23 of the total 517. In 'garment' manufacturing, only the proportions of enterprises owned by Marawari, Indian and 'mixed' caste/ethnic groups exceed that 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 or 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 or ethnic composition of ownership involve Marawari ownership, then the claim may be made that not only is 'garment' manufacturing predominantly 'foreign' in its ownership profile, but 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.

6. The Regional Distribution of Enterprises Owned by the Various Caste Ethnic groups

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.

Table 7: Caste/Ethnic Ownership of Enterprise

Regional Location Of enterprise	Parbatya (n= 165) %	Newar (n= 87) %	Tribal (n= 23) %	Marawari (n= 94) %	Indian (Unspec) (n= 28) %	Mixed (n= 12) %	Total (n= 517) %
Far West	6.7	0.0	4.3	3.2	0.0	5.0	4.0
Mid West	7.9	2.3	8.7	9.6	0.0	5.8	6.4
West	12.7	17.2	30.5	3.2	3.6	4.2	10.1
Central	41.2	70.1	43.5	45.7	39.3	59.2	51.1
East	24.2	7.0	8.7	29.8	46.4	15.8	20.9
No Information	7.3	3.4	4.3	8.5	10.7	10.0	7.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Where as 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 the location of the largest and fastest growing urban settlement in Nepal therefore the major domestic market for the commodities involved, and the ancestral homeland of the

Newars.

Surprisingly, a high proportion (45.7%) of the Marawari owned enterprises are also located in the Central Region—a far larger proportion than for any other group bar the Newars and the “Mixed”. Since more than half of the latter involve a Marawari as a co-owner, the Marawari presence in this Region in terms of ownership is even more extensive than might be assumed at first glance. Neither are the Marawari interests nor those of Indians generally are contained in the Eastern Development Region.

7. A ‘New’ Working Class?

This exploration would be gravely inadequate nothing were said about the labor power commanded by this newly constituted industrial capital. If the owners/controllers of this industrial capital constitute a ‘new’ class in this predominantly agrarian society, then this automatically entails the emergence of ‘new’ working class, the industrial workers who provide the labour power for the industrialists.

Unfortunately, the records examined for this study provided no information about the workers in each of the enterprises. The Department of Industry relies of periodical sample surveys to obtain such information. Such a research method was not used for this stage of the inquiry. But since the issue is extremely important, the material contained in the Department of Industry's publication (1984) might be used, albeit with caution. This publication provides detailed information relating to labour in each of the 155 non-government manufacturing enterprises operating during the fiscal year 1983/84.

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. This perhaps justifies some trust in the other figures.

Focusing on the question of labour, the private sector employed a total of 31,222 persons in 1983/84. The manner this workforce is distributed among the various size enterprises and in terms of the workers’ national identity (‘Nepalese’ vs. ‘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	15.0
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. However, that a significantly high proportion of 'foreign' workers are also found in these enterprises (22.6% in '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 significantly divided: first, its indigenous component is likely to be divided along caste lines; and second 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, 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 impossible 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.

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