

DEVELOPMENT OF SPECIAL ECONOMIC ZONE IN NEPAL



A Thesis

**Submitted to APF Command and Staff College,
Faculty of Humanities and Social Sciences, Tribhuvan University,**

**In Partial Fulfillment of the Requirements
for Master Degree in Security, Development and Peace Studies**

Submitted By

NAVARAJ THAPA

Roll No.: 28MSDPS40059

Year: 2079-2081

TU Registration No.: 6-1-14-661-97

**APF Command and Staff College
Sanogaucharan, Kathmandu, Nepal**

May, 2024

**DEVELOPMENT OF SPECIAL ECONOMIC ZONE IN
NEPAL**

A Thesis

**Submitted to APF Command and Staff College,
Faculty of Humanities and Social Sciences, Tribhuvan University,**

**In Partial Fulfillment of the Requirements
for Master Degree in Security, Development and Peace Studies**

Submitted By

NAVARAJ THAPA

Roll No.: 28MSDPS40059

Year: 2079-2081

TU Registration No.: 6-1-14-661-97

**APF Command and Staff College
Sanogaucharan, Kathmandu, Nepal**

May, 2024

DECLARATION

I hereby declare that this thesis entitled “**DEVELOPMENT OF SPECIAL ECONOMIC ZONE IN NEPAL** ” submitted to APF Command and Staff College, is entirely my original work.

I have made due acknowledgments to all ideas and information cited and extracted from different sources in the course of preparing this research. The result of this research paper has not been presented or submitted anywhere else for the award of any degree or any other purpose. I assure you that no part of the content of this research paper has been published in any form before. I shall be solely responsible if any evidence is found against my research paper.

This thesis is being submitted to APF Command and Staff College, Faculty of Humanities and Social Sciences, Tribhuvan University in partial fulfillment of Master Degree in Security, Development and Peace Studies.

Signature:

Name: Navaraj Thapa

Date: May, 2024

LETTER OF RECOMMENDATION

I certify that this thesis entitled “**DEVELOPMENT OF SPECIAL ECONOMIC ZONE IN NEPAL**” was prepared by Mr. Navaraj Thapa under my supervision. The researcher has fulfilled the criteria prescribed by Faculty of Humanities and social Sciences, Tribhuvan University. I hereby recommend the thesis for the final evaluation and approval.

.....

Thesis Supervisor

Prof. Dr. Danda Pani Adhikari

Date: May, 2024



**Government of Nepal
Ministry of Home Affairs
APF Command and Staff College**

Ph.No . :01-4413159
Fax No . :01-4414129
paacademic2015@gmail.com

**Academic Section
Sanogaucharan,
Kathmandu**

Ref. No.:-

2081/02/11

Date:-

LETTER OF APPROVAL

This thesis entitles “**DEVELOPMENT OF SPECIAL ECONOMIC ZONE IN NEPAL**” submitted by Mr. Navaraj Thapa to APF Command and Staff College, Faculty of Humanities and Social Sciences, Tribhuvan University in Partial Fulfillment of Master Degree in Security, Development and Peace Studies has been approved by the undersigned members of the Evaluation Committee.

Evaluation Committee:

<p>..... Prof. Dr. Danda Pani Adhikarir Thesis Supervisor</p>	<p>..... External Examiner</p>
<p>Thesis Co-Supervisor</p>	<p>External Examiner Internal Examiner Internal Examiner</p>

May, 2024

ACKNOWLEDGEMENT

First and foremost, I extend my deepest gratitude to my research supervisor, Prof. Dr. Danda Pani Adhikari, for his unwavering support, insightful critiques, and continuous encouragement throughout the development of this research. I am equally thankful to my co-supervisor for his invaluable guidance. Additionally, I appreciate the support from the academic coordinator and directing staff of the APF Command and Staff College, who facilitated my research efforts.

I owe a debt of gratitude to all faculty members, both senior and junior officers, other ranks, and the library management and administrative team at APF Command and Staff College for their assistance and for creating an environment conducive to my studies.

My sincere thanks and respect go to all respondents and key informants who generously shared their time and provided essential feedback for this study. I am also grateful to the members of various governmental and non-governmental organizations who enriched this research through their key informant interviews.

I appreciate the APF Command and Staff College in Sanogaucharan, Kathmandu, for providing the necessary resources and time. Lastly, my heartfelt thanks to my friends and family for their ongoing support, both directly and indirectly, as I prepared this research paper.

ABSTRACT

The rapid industrialization and economic development of a nation significantly hinge on the establishment of Special Economic Zones (SEZs). These zones are designated areas where economic regulations differ from those in other regions within the same country. SEZs aim to attract foreign investment, boost exports, and create employment opportunities. This study focuses on the development and challenges of SEZs in Nepal, particularly the Bhairahawa and Simara SEZs, which have been developed to bolster industrial growth and economic progress. By examining these zones, the study seeks to provide insights into their effectiveness and the hurdles they face.

The primary objectives of this study are threefold. Firstly, it aims to identify and analyze the key factors influencing the establishment and development of SEZs in Nepal. Secondly, it seeks to assess the challenges and opportunities that exist in the implementation and operation of these zones. Lastly, the study aims to recommend measures that could be adopted for the effective implementation and operation of SEZs, thereby enhancing their contribution to Nepal's economic development.

This research adopts a qualitative design, employing both descriptive and analytical approaches. It relies on primary data collected through field visits, survey questionnaires, and key informant interviews, as well as secondary data sourced from books, journals, articles, and reports. The study areas include the Bhairahawa and Simara SEZs, where primary data collection involved interviews with seven entrepreneurs, five SEZ officers, and three local residents. Additionally, personal interviews were conducted with SEZ Authority officials in Kathmandu. This comprehensive approach ensures a robust understanding of the current state and challenges of SEZs in Nepal.

The findings reveal that SEZs in Nepal have significant potential to contribute to economic development, but several challenges hinder their full operationalization. Key factors influencing SEZ development include policy and legal frameworks, infrastructure, market access, and investor confidence. Among the challenges identified are bureaucratic inefficiencies, high land rents, mandatory export ceilings, and a lack of political commitment. Despite these obstacles, opportunities exist in

Nepal's strategic location between India and China, the availability of a young and energetic workforce, and recent policy reforms aimed at attracting investment. These factors can significantly enhance the effectiveness and attractiveness of SEZs.

Keywords: Special Economic Zones (SEZs), Foreign investment, Industrial growth, Policy framework, Economic development

TABLE OF CONTENTS

TITLE PAGE	i
DECLARATION	ii
LETTER OF RECOMMENDATION	iii
LETTER OF APPROVAL	iv
ACKNOWLEDGEMENT	v
ABSTRACT	vi
TABLE OF CONTENTS	viii
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ABBREVIATIONS AND ACRONYMS	xii
CHAPTER I INTRODUCTION	1
1.1 Introduction	1
1.2 Statement of the Problem	4
1.3 Research Questions	5
1.4 Objectives of the Study	5
1.5 Significance of the Study	5
1.6 Limitations of the Study	6
1.7 Organization of the Chapter	6
CHAPTER II REVIEW OF LITERATURE	9
2.1 International Context	9
2.2 National Context	11
2.3 Research Gap	12
CHAPTER III RESEARCH METHODOLOGY	14
3.1 Research Design	14
3.2 Area of Study	14
3.3 Nature and Sources of Data	15
3.4 Techniques and Tools of Data Collection	16
3.5 Data Presentation and analysis	17
3.6 Conceptual Framework	17
CHAPTER IV FINDINGS AND DISCUSSION	19
4.1 Concept of SEZ	19
4.2 Concept of SEZ in Nepal	21
4.3 Major Characteristics of SEZ	27
4.4 Purpose and Prospects of SEZ	30
4.5 Policy and Laws	33

4.6	Bhairawa SEZ	35
4.7	Simara SEZ	39
4.8	Issues and Challenges	42
4.9	Potential Solution	49
CHAPTER V SUMMARY AND CONCLUSION		55
5.1	Summary	55
5.2	Conclusion	56
REFERENCES		59
APPENDICES		61

LIST OF TABLES

Table 1: The historical development of SEZs across different economies	20
Table 2: Evolution of Special Economic Zones in Nepal	22
Table 3: Current Status of SEZ In Nepal.	24
Table 4: Characteristics of Bhairawa SEZ	34
Table 5: Industries within Bhairahawa SEZ	37
Table 6: Characteristics of Simara SEZ	39
Table 7: Summary of Challenges	41
Table 8: Summary of Potential Solution	48

LIST OF FIGURES

Figure 1: Location of the SEZ in different part of the country	15
Figure2: Conceptual Framework of Study	18
Figure 3 : Plots within Bhairahawa SEZ	35
Figure 4: Plots within Simara SEZ	40

LIST OF ABBREVIATIONS AND ACRONYMS

BIMSTEC - Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

BIPPA - Bilateral Investment Promotion and Protection Agreement

DOI - Department of Industry

DTAA - Double Taxation Avoidance Agreement

EIA - Environmental Impact Assessment

FDI - Foreign Direct Investment

FITTA - Foreign Investment and Technology Transfer Act

IBN - Investment Board Nepal

IEA - Initial Environmental Examination

MOI - Ministry of Industry

PPP - Public-Private Partnership

SAARC - South Asian Association for Regional Cooperation

SEZ - Special Economic Zone

SEZA - Special Economic Zone Authority

TIFA - Trade and Investment Framework Agreement

WTO - World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Introduction

Every nation pursues its own progress, with the rapid advancement hinging on industrial establishment. Industrial growth forms the bedrock of a nation's economy, with small or cottage industries alone unable to meet national demands. To address this, governments introduce and execute new policies and initiatives. Free zones have a longstanding history, initially created to foster trade. Post-World War II, numerous developing nations adopted the strategy of establishing Export Processing Zones/Special Economic Zones (EPZs/SEZs) as a route to economic and social progress (Singala et al., 2011). This underscores the widespread adoption of SEZs as a tool for economic advancement. Thus, this chapter aims to explore the definition and evolution of SEZs across different countries, offering insights into the concept and its global development.

1.1.1 Development of SEZ

SEZs are designated geographical areas with economic regulations that are more liberal than those in different part of the country. These zones offer specific privileges to all units within, aiming primarily to boost foreign investment. SEZs can focus on manufacturing, services, or both, and may vary from multi-product to sector-specific or Free Trade and Warehousing Zones, potentially including tourism and retail sectors, with provisions for residential facilities on-site (Chakraborty et al., 2017).

Unlike EPZs, which are confined industrial areas, SEZs are expansive industrial hubs. These zones typically span over 1000 hectares and are equipped with essential physical infrastructure such as real estate, roads, electricity, water, and telecommunications to support the activities within. SEZs operate under specific regulatory frameworks, often governed by dedicated laws or a series of regulations requiring centralized or decentralized administration (Chaisse & Ji, 2020).

The primary objectives of SEZs include generating additional economic activity, boosting exports, attracting domestic and international investment, creating job opportunities, and developing infrastructure.

The promotion of SEZs serves as a strategic response to infrastructural deficits, bureaucratic hurdles, and barriers imposed by various policies concerning trade, fiscal matters, taxation, tariffs, and labor. These impediments negatively impact the investment climate by escalating production and transaction costs. Given the expense and time required for nationwide infrastructure development and structural reforms, establishing industrial enclaves, such as SEZs/EPZs, emerges as a crucial strategic tool to accelerate industrialization processes in developing countries (Chiukira, 2020).

Internationally, the concept of SEZs gained traction following the establishment of an industrial park in Puerto Rico in 1947, aimed at attracting investment from the US mainland. Subsequently, Ireland and Taiwan followed suit in the 1960s. However, it was China's introduction of SEZs, notably exemplified by Shenzhen, following economic reforms in the 1980s, that propelled global interest in the model. By 1995, approximately 500 SEZs existed worldwide, with estimates ranging from 3000 to 5000 zones a decade later. SEZs have been established in various countries, predominantly in developing nations like China, Iran, Jordan, Poland, Kazakhstan, the Philippines, and Russia. While North Korea attempted SEZ implementation to some extent, it did not succeed. In the United States, similar zones are referred to as "Urban Enterprise Zones."

In India, experimentation with Export Processing Zones (EPZs) began in 1965 but did not yield expected results. In 2000, with the introduction of the new Export and Import Policy, India shifted focus to SEZs, allowing their establishment in the public, private, or joint sectors, leading to the conversion of eight EPZs into SEZs.

The rise of SEZs/EPZs in the 1980s coincided with the emergence of new growth theory, integrating neo-institutionalism and the concept of a developmental state. This perspective advocates state facilitation and proactive measures to promote private sector-led industrialization. For developing countries, SEZs have traditionally served both policy and infrastructure purposes, serving as tools to enhance industry

competitiveness and attract Foreign Direct Investment (FDI) as part of broader economic growth strategies.

1.1.2 Development of Industry and concept of SEZ

Rapid development of a country heavily relies on the establishment of industries, which form the backbone of its economy. Industrial growth plays a vital role in various aspects such as poverty reduction, employment creation, globalization, balanced growth, infrastructure development, human resource development, self-reliance, and overall well-being.

In Nepal, traditional industries mainly included activities like weaving coarse clothes, pottery, household utensils, Thangka carving, and casting of statues of deities. However, modern industrialization began in the 1930s with the introduction of sawmills, match factories, cotton and sugar mills, and jute industries. Initiatives such as the Industrial Promotion Board in 1936 and the implementation of acts like the Company Act and Nepal Patent Design and Trademark Act also contributed to industrial development.

The country's industrial landscape saw significant support from China and the Soviet Union during the 1950s and 1960s, with the establishment of industries in Kathmandu. The development of Industrial Estates, starting with the Balaju Industrial Estate in 1963, further aimed to attract private sector investments in the industrial sector.

The National Industrial Development Corporation (NIDC) was established in 1959 to provide financial and technical assistance for industrial ventures. However, it wasn't until the 1980s that Nepal underwent economic reforms, with a focus on industrialization.

Industrial growth in Nepal saw a gradual increase over the years, with a significant rise in the number of registered industries. From only 15 manufacturing industries registered before 1990, the number surged to 386,135 by FY 2014/15, with various scales ranging from large to micro.

The dominance of manufacturing industries is evident in various Industrial Estates across Nepal, such as Dhangadi, Nepalgunj, Butwal, Pokhara, Balaju, Bhaktapur, Patan, Hetauda, Birendranagar, Dharan, and Gajendra Narayan Singh.

In line with global trends, Nepal adopted the concept of SEZs to accelerate industrialization, attract investment, promote exports, facilitate technology transfer, and create employment opportunities. The government provides special facilities, rebates, and exemptions to industries operating within SEZs, aiming to streamline administrative procedures through a simplified "One Window Policy." SEZs enjoy a liberal tax regime and various other benefits to encourage investment and export-oriented activities.

The establishment of SEZs in Nepal has undergone a chronological evolution, with milestones such as the drafting of SEZ ordinances and acts, the establishment of the SEZ Authority, and the passing of regulations aimed at providing a conducive environment for industrial growth. The government envisions SEZs as commercial hubs that offer liberal economic laws to attract both foreign and domestic investment, contributing significantly to trade promotion, job creation, and the reduction of trade deficits.

Inspired by the success stories of EPZs/SEZs in other countries, Nepal has conducted feasibility studies and initiated the establishment of SEZs in various locations across the country, with the aim of further boosting industrial development and international trade.

1.2 Statement of the Problem

SEZ, or Special Economic Zone, is a term denoting a region within a country with economic laws that are more lenient compared to the traditional economic regulations of the country. This unique status allows SEZs to attract increased trade and foreign investment, consequently leading to job creation and a reduction in the trade deficit. Many countries worldwide, including economic powerhouses like China, India, and Russia, have long benefited from the establishment of SEZs, which played a pivotal role in bolstering their economies and propelling them to become global economic leaders.

However, in Nepal, the full-fledged operation of SEZs remains a challenge. Despite proposals for SEZs at over 14 sites and the enactment of the SEZ Act in 2016, only two Bhairahawa SEZ and Simara SEZ have been realized. Yet, it has faced difficulties in achieving full functionality due to a tepid response from investors and various challenges and obstacles. Consequently, while the potential for economic development through SEZs exists, the hurdles in making them fully operational raise doubts about their effectiveness in Nepal.

1.3 Research Questions

This research has been guided by the following research questions:

1.3.1 What are the key factors influencing the establishment and development of SEZs in Nepal?

1.3.2 What challenges and opportunities exist in the implementation and operation of SEZs in Nepal?

1.3.3 What are the measures that could be adopted for the effective implementation and operation of SEZs in Nepal?

1.4 Objectives of the Study

The objectives of the study are as follow:

1.4.1 To identify and analyze the key factors influencing the establishment and development of SEZs in Nepal.

1.4.2 To assess the challenges and opportunities present in the implementation and operation of SEZs in Nepal.

1.4.3 To identify the measures that could be adopted for the effective implementation and operation of SEZs in Nepal.

1.5 Significance of the Study

The outcomes of this study are valuable for scholars interested in conducting research on SEZs in Nepal. It is anticipated that this research has enhanced understanding

regarding the significance of SEZs and the obstacles hindering their functionality and success. Both the SEZA and other stakeholders involved in development initiatives can utilize the research findings as insights to address challenges encountered during the initial stages of SEZ projects across Nepal. Given that the SEZ concept is novel to Nepal and the country is striving for economic development through its implementation, it holds considerable relevance. Therefore, this study provides researchers with insights into critical issues related to SEZs that were previously unexplored.

1.6 Limitations of the Study

The study relied on a combination of primary data collected through field visits, survey questionnaire and key informant interviews, as well as secondary data obtained from various sources such as books, journals, news articles, and other relevant literature. It is important to note that the study did not cover all aspects of SEZs, but rather focused specifically on the challenges faced by enterprises during the inception and functioning stages in the Bhairahawa and Simara SEZ, as well as the challenges encountered by the SEZA in Bhairahawa and Simara.

1.7 Organization of the Chapter

Chapter I: Introduction

This chapter introduces the concept of SEZs within the context of Nepal's economic development strategy. It outlines the background, significance, and objectives of the study, presenting the rationale behind focusing on SEZs as a tool for economic transformation. The research questions are clearly defined to guide the investigation into how SEZs can contribute to Nepal's economic growth. The chapter concludes with a brief layout of the subsequent chapters, setting up the structure for the detailed analysis to follow.

Chapter II: Literature Review

Chapter II delves into a comprehensive review of existing literature related to SEZs globally and specifically in Nepal. It explores different theoretical frameworks and models that explain the economic impacts of SEZs, comparing various country experiences with Nepal's context. The literature review identifies key factors contributing to the success and failure of SEZs and establishes a theoretical base for the empirical research. This chapter helps in understanding the gaps in current research and sets the stage for further investigation.

Chapter III: Methodology

This chapter describes the research methodology used to gather and analyze data. It details the qualitative and quantitative research methods, including the selection of study areas, sampling techniques, data collection methods (such as surveys, interviews, and field observations), and analytical procedures. The chapter justifies the chosen methods in the context of the research objectives and questions, ensuring that the approach is robust and appropriate for addressing the study's aims.

Chapter IV: Findings and Analysis

Chapter IV presents the core findings from the field research and data analysis. It assesses the operational effectiveness, challenges, and economic impacts of SEZs in Nepal. This chapter critically analyzes how SEZs have influenced local economies, investment patterns, and employment. It discusses the discrepancies between the expected and actual outcomes of SEZ policies and examines the factors that have hindered or facilitated the success of these economic zones.

Chapter V: Summary and Conclusions

The final chapter synthesizes the study's findings and discusses the implications for policy-makers, investors, and other stakeholders. It provides a detailed conclusion that answers the research questions and evaluates the extent to which SEZs have met their objectives in Nepal. Based on the findings, the chapter offers practical recommendations for enhancing the effectiveness of SEZs, including policy reforms,

infrastructure improvements, and strategic planning initiatives. The chapter ends by suggesting areas for further research, highlighting the need for ongoing evaluation to adapt and optimize SEZ strategies in Nepal.

CHAPTER II

REVIEW OF LITERATURE

2.1 International Context

Madani (1999) provided a detailed account of the arguments for and against SEZs in India through empirical study, using a cost-benefit approach expanded along the lines of a social accounting framework and incorporating evidence from a large number of countries. While arguing that both the neoclassical and new growth schools fail to capture exactly the linkages and externalities of SEZs, Madani found that “under propitious circumstances and good management, SEZs generally achieve two basic goals of creating employment and increasing foreign exchange earnings.” In the study, Madani also documented that SEZs have contributed to the “development of human capital, both through skill acquisition and productivity gained by workers and through the development of managerial and supervisory skills. SEZs typically employ a large proportion of female workers so it can be argued that they play an important role in women’s economic empowerment by getting women into the formal workforce at reasonable wage rates.

Kumar and Gangal (2009) from the University of Bangalore had done a research study on the development of the SEZs; found the Indian economy is expected to grow at a rapid rate of 6–10 percent between 2007 and 2012 and beyond. By the year 2032, China will have the world’s largest economy, followed by the U.S. and India. In terms of purchasing power parity, even today India’s GDP is already the third-largest in the world after the U.S. and China. While much of the country is likely to remain poor and industrially backward, other parts have the potential to grow as fast as China or other East Asian economies.

Aggarwal (2010) examined the economic impacts of SEZs in the Indian context. While doing so, it addresses the conceptual confusion about SEZs, outlines the evolution of SEZs; traces economic philosophies explaining the rationale and benefits of SEZs; extends existing theoretical literature to explain the economic impacts of SEZs; assesses the economic impacts of newly notified SEZs in India; reviews the

strategies followed by various state governments in the implementation of the policy ; and draws policy implications. It argues that the existing economic theories do not adequately explain the rationale and contribution of SEZs. These approaches need to be extended by integrating the provisions of the theories of agglomeration economies and global value chains within the existing theoretical frameworks. It analyses the economic impacts of SEZs within the extended theoretical framework. It finds that while SEZs are stimulating direct investment and employment, their role appears to be more valuable in bringing about economic transformation from a resource-led economy to a skill and technology-led economy; from low value added economic activities to high value added economic activities; from low productive sectors to high productive sectors; and from unorganised to organized sectors, both at the national and regional levels.

Bhat (2011) highlighted India's Economic Potential and SEZs with a population of 1.1 billion and a GDP per capita of US\$3,400. India is a rising power that no international company can afford to ignore. In 2015, the International Monetary Fund reported India's GDP to be US\$ 3.63 trillion in terms of purchasing power parity, ranking fourth in the world. By some definitions, India's middle class consists of 300 million people and its expansion will raise consumption and make economic growth faster and more sustainable. Hence, there is great interest within India to promote the export-oriented manufacturing sector through Special Economic Zones or SEZs.

Wang (2013) found that the SEZ program increases foreign direct investment not merely through firm relocation, and does not crowd out domestic investment. With dense investment in the targeted municipality the SEZ achieves agglomeration economies and generates wage increases for workers more than the increase in the local cost of living. The effects are heterogeneous: for zones created later the benefits are smaller while the distortions in firm location behavior are larger than those for the early zones. Municipalities with multiple SEZs experience larger effects than those with only one SEZ.

Chakraborty et al. (2017) investigated whether the enactment of SEZ policies had any impact on inflow of FDI among Indian states. This is tested using panel data techniques on 16 groups of states over 14 years period from 2001 to 2014. The results indicate that enactment of SEZ policy (as well as operational SEZs) in a state has

induced more FDI inflow. Based on the results, it can be concluded that the states, which want to benefit from FDI inflow, they need to enact the policies sooner

Song et al. (2020) observed that despite the presence of institutions of comparative disadvantage, emerging economies continue to constantly attract significant foreign direct investment. Hence, this study focuses on a type of place-based policy in China that provides a standard favorable institutional environment in a specific area. Using data from China's Annual Survey of Industrial Firms and combining official lists of Chinese SEZs, we obtained a dataset of 2660 SEZs from 1998 to 2018, and a sample of 37,251 from 1998 to 2013. Then, we empirically examined the impact and mechanism of SEZs on foreign investment by using time-varying difference-in-difference specification. After a sequence of validity and robustness checks, we found that the establishment of SEZs significantly enhances foreign entry. We also found that partial institutional quality improvement of SEZs is a key mechanism in the location of foreign investment. We conclude that it is beneficial for the government to impose place-based policies such as SEZs that improve partial institutional quality efficiently and promote the local economy.

Waqar et al. (2021) found that technological enhancement accumulates the economy through various other selected indicators rather than domestic labor productivity. The human capital remains inconsequential in this nexus. This condition gives us guidelines to follow pro-human capital policies to accumulate domestic human capital before the intervention from the foreign firms on our soil. Subsequently, much waited for dynamic or long-run benefits in terms of human capital can be attained rather than static effects.

Yeung (2023) concluded by viewing the past performance of the SEZs within the context of the gathering momentum of globalization that afforded entry for their export-oriented manufacturing activities into world markets and explores some implications of the current worldwide financial crisis for their future.

2.2 National Context

Ghimire et al. (2023) identified the current situation and problems of the SEZ and recommend policy measures to be taken in the future for the effective implementation

of SEZ facilities using a mixed method using both quantitative and qualitative data. This study reviewed the overall trade scenario of the Nepal including international practices for the operation and its success factors. The study analyzed in detail the SEZ policies currently adopted in Nepal and other policies related to SEZ implementation and tried to explore the present implementation status of the SEZ, the incentives and facilities provided by the Government of Nepal for Nepalese SEZ, and identifying problems faced in the implementation of those policies (Ghimire et al., 2023).

Gyanwali (2020) described the different aspects of SEZ in global and national context, policies and present situations of SEZ in Nepal. The overall objective of this article is to find out the present situation of special economic zones of Nepal. The specific objective is to analyze the overall conditions of SEZ, their challenges and opportunities in Nepal. the analytical and descriptive methods are applied in this study. The data used in the study is quantitative which are collected from the economic survey of the ministry of finance, ministry of industry, commerce and supply, World Bank, OECD, SEZ office, published articles and newspapers related to SEZ and reports. In conclusion, to achieve high speed of economic development, to generate employment opportunities and to increase direct foreign investment are the main goals of SEZ (Gyanwali, 2020).

2.3 Research Gap

The literature review conducted in this thesis provides a comprehensive overview of the global and national context of Special Economic Zones , highlighting their role in economic development, challenges, and opportunities. Previous studies have extensively covered the theoretical underpinnings and practical outcomes of SEZs in various countries, including their ability to attract foreign investment, boost exports, and create employment. For instance, studies by Madani (1999) and Aggarwal (2010) discuss the economic impacts and policy frameworks of SEZs in India, while research by Wang (2013) and Chakraborty et al. (2017) examine the influence of SEZs on foreign direct investment and economic transformation. However, despite the rich body of literature on SEZs in other contexts, there is a noticeable gap in focused research on the specific challenges and opportunities faced by SEZs in Nepal.

The objectives of this thesis are to identify and analyze the key factors influencing the establishment and development of SEZs in Nepal, assess the challenges and opportunities in their implementation and operation, and recommend measures for their effective operation. While the literature provides a broad understanding of potential benefits and general challenges SEZs, it lacks specific insights into the Nepalese context, particularly regarding the operational dynamics of SEZs like Bhairahawa and Simara.

The methodology of this study, which includes primary data collection through field visits, surveys, key informant interviews, and personal interviews, combined with secondary data from literature reviews, government documents, and online resources, addresses this gap by providing empirical evidence specific to Nepal. This approach allows for a detailed examination of the real-world challenges faced by SEZs in Nepal, such as bureaucratic inefficiencies, high land rents, and mandatory export ceilings, which are not thoroughly covered in the existing literature.

Therefore, the research gap lies in the lack of detailed, context-specific studies on the operational and regulatory challenges of SEZs in Nepal. This thesis aims to fill this gap by providing a focused analysis based on empirical data, thereby contributing to the understanding of how SEZs can be effectively developed and managed in Nepal to achieve their intended economic benefits.

CHAPTER III

RESEARCH METHODOLOGY

The present work is primarily based on published books and online articles. For the study of the concerned subject, descriptive method was chosen. The collection technique for the study was based on primary and secondary data. The research purpose is an explanatory and descriptive which has done by employing mixed research design. Secondary data, documents and records, non-written records is used to develop research. The research paper is more inductive after applying mentioned methods.

3.1 Research Design

This research adopted a qualitative design, employing descriptive and analytical approaches. A comprehensive review of literature was conducted to guide the collection and analysis of information in alignment with the research objectives. Both primary and secondary data were triangulated to validate the findings.

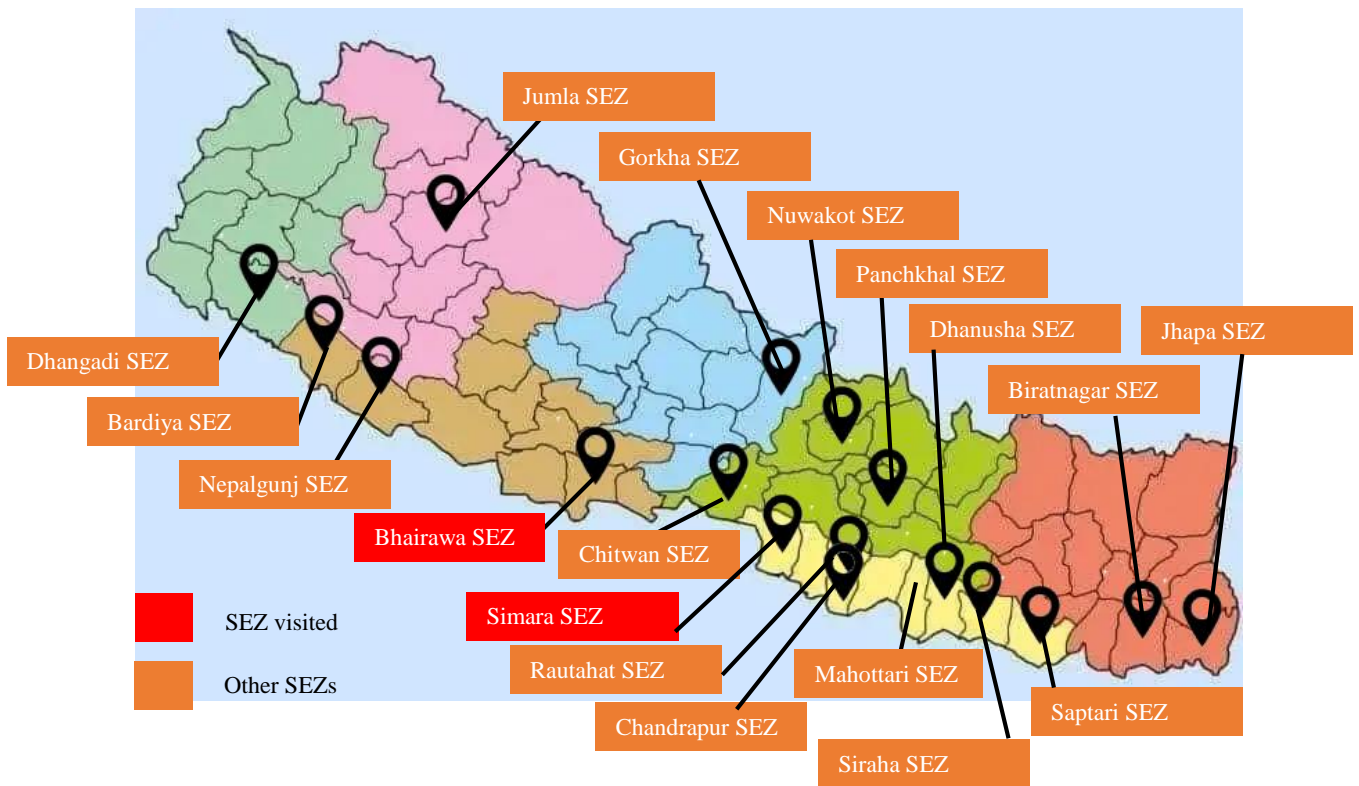
Qualitative description aims to provide a detailed understanding of a phenomenon by examining concepts, actions, processes, and relationships. This approach allows for a nuanced exploration of the subject matter, facilitating a deeper comprehension of the issues under investigation.

3.2 Area of Study

The focus area of this study was the SEZ Bhairahawa situated Ward no. 1 of Rohini Rural Municipality, Rupandehi District, Nepal and SEZ Simara situated in Bara District. The study was narrowed down its scope to specifically investigate the challenges encountered by entrepreneurs and the SEZA in Bhairahawa.

Figure 1

Location of the SEZ in different part of the country



Note: Modified and adapted from Department of Survey, 2021

To delve into these issues, the researcher conducted primary data collection through Key Informant Interviews (KIIs) involving seven entrepreneurs within Bhairawa and Simara SEZ, five SEZ officers, and three local residents. Additionally, personal interviews were conducted with SEZA officials located in Tripureshwor, Kathmandu.

3.3 Nature and Sources of Data

The data sources included both primary and secondary sources. Books, journals, articles, reports, laws, regulations, and various online portals, as well as library books, were among the secondary sources of data utilized by the researcher. Throughout the research process, unstructured questions is posed to the respondents. Primary data were primarily be sourced from the outcomes of Key Informant Interviews, observations made within and outside the facilities of the BSEZ, and personal interviews conducted with SEZA Officers in Tripureshwor.

3.4 Techniques and Tools of Data Collection

The data collection for this thesis on the development of SEZs in Nepal involved a combination of primary and secondary sources, employing both qualitative and quantitative techniques.

Extensive field visits were conducted to the Bhairahawa and Simara SEZs to gain firsthand insights into their operational status and infrastructure. During these visits, the researcher observed the physical conditions, layout, and facilities available within the SEZs. This direct observation was crucial for understanding the practical challenges faced by these zones, such as issues with infrastructure maintenance and the usability of the provided facilities. Additionally, field visits allowed for informal interactions with entrepreneurs and workers, providing an on-the-ground perspective of daily operations and challenges.

In-depth interviews were conducted with key stakeholders, including seven entrepreneurs from Bhairahawa and Simara SEZs, five SEZ officers, and three local residents. These interviews were designed to gather comprehensive insights into the operational dynamics, administrative challenges, and local impacts of the SEZs. The key informants were selected based on their involvement and expertise in SEZ operations. The interviews provided nuanced perspectives on how policies and regulations are implemented on the ground, the effectiveness of the SEZ Authority's support, and the socio-economic impacts on the surrounding communities.

The secondary data collection for this thesis involved a thorough review of various sources to ensure a comprehensive understanding of the development and challenges of SEZs in Nepal. A comprehensive literature review was conducted, including books, journals, articles, and reports, which provided a solid foundation of theoretical frameworks and previous research findings. Government documents and reports from the SEZ Authority and the Ministry of Industry were crucial for gathering official data and understanding the regulatory and policy framework. These included key publications such as the SEZ Act, policy guidelines, and economic surveys. Additionally, relevant online portals and websites were utilized to access up-to-date information, including news articles, economic surveys, and industry reports, which offered real-time insights into the performance and public perception of SEZs. Library

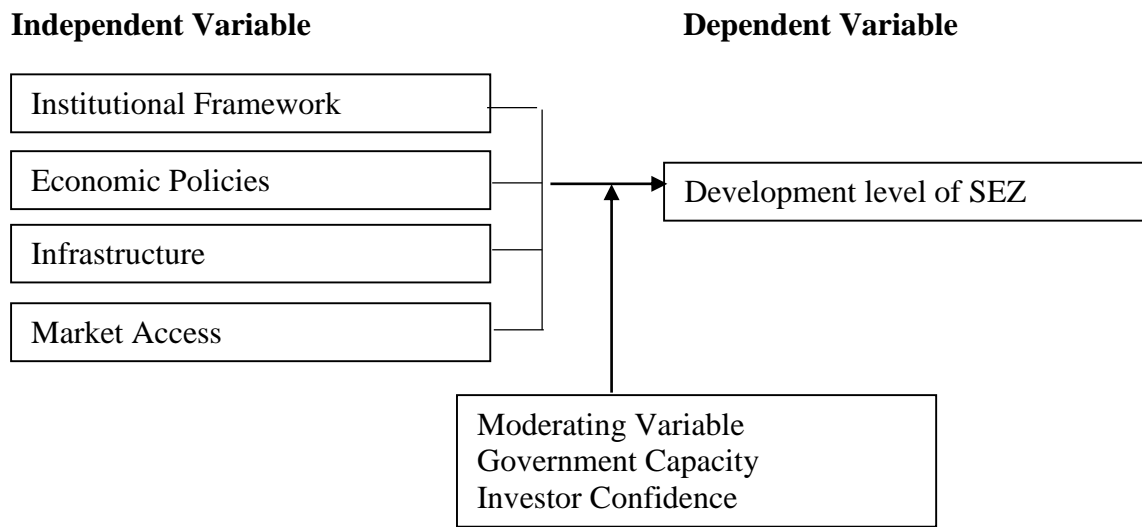
archives provided historical data and theoretical perspectives, offering a long-term view of the trends and factors influencing SEZ development. This multi-faceted approach to secondary data collection ensured a robust and well-rounded analysis, supporting the primary research findings and contributing to the overall depth of the study.

3.5 Data Presentation and analysis

The data collected for this thesis on the development of Special Economic Zones in Nepal were systematically presented and analyzed to draw meaningful conclusions. Primary data from field visits, key informant interviews were first categorized and summarized to highlight key themes and patterns. Qualitative data were analyzed thematically to identify recurring issues and perspectives, while quantitative data were subjected to statistical analysis to uncover trends and correlations. The findings were then compared and contrasted with secondary data from literature reviews, government documents, online resources, and library archives to validate and contextualize the results.

3.6 Conceptual Framework

A conceptual framework is at the center of an empirical study. A conceptual framework represents the researcher's synthesis of the literature on how to explain a phenomenon. It maps out the actions required in the course of the study, the conceptual framework shows and illustrates the organizations, sequence and concepts, or ideas regarding the various aspects of research which gives a clear mental image. The conceptual framework steers the whole research activity. The conceptual framework serves as a map or rudder that guide towards realizing the study's objectives or intent. A conceptual framework is a comprehensive overview or strategy that gives meaning to your research by providing a well-planned arrangement of the components of investigation. The contexts shaping a research setting and the study of phenomena in that setting. The conceptual framework is designed as follows.

Figure 2*Conceptual Framework of Study**Note: Concept of the researcher*

CHAPTER IV

FINDINGS AND DISCUSSION

4.1 Concept of SEZ

Most SEZs are established as export-oriented zones, a concept that has evolved significantly over time. The origins of SEZs can be traced back to the concept of free ports, which have existed for centuries. In these areas, traders would operate directly from ships, transferring and re-exporting goods with minimal regulatory interference from local authorities. The minimal regulations allowed for a flourishing trade environment where goods could be exchanged and re-exported without the usual constraints of national customs regulations. This model was particularly advantageous for merchants who needed to move goods quickly and efficiently across borders.

The modern incarnation of SEZs often connects directly to significant transport hubs like seaports, airports, or key border corridors to facilitate international trade more efficiently. This strategic positioning ensures that SEZs can easily access global markets, making them attractive locations for multinational corporations and investors looking to optimize their supply chains. By being situated near major transport hubs, SEZs can reduce transportation costs and times, further enhancing their appeal as centers for export-oriented production.

According to the UNCTAD World Investment Report 2019, the first modern SEZ is believed to have been established at the Brooklyn Navy Yard in New York in 1937, located along the East River side of New York Harbor. This marked the beginning of a more structured approach to SEZs, integrating them into the broader economic framework and strategy of nations. The Brooklyn Navy Yard served as a prototype, demonstrating how concentrated zones with specific regulatory frameworks could stimulate economic activity. This development laid the groundwork for future SEZs by illustrating the potential benefits of such zones in promoting industrial growth and trade.

The historical development of SEZs across different economies varies significantly, reflecting each region's unique economic contexts and periods as shown in Table 1.

For instance, the Shannon Free Zone in Ireland, established in 1959, focused on attracting foreign direct investment (FDI) and became a model for similar zones worldwide. In Asia, China's introduction of SEZs in the late 1970s, particularly the Shenzhen SEZ, showcased how these zones could transform entire regions by attracting massive foreign investment and becoming manufacturing hubs. In contrast, the SEZs in African countries, such as Mauritius in the 1970s, aimed to diversify economies heavily reliant on agriculture and commodity exports.

Table 1

The historical development of SEZs across different economies.

Economies	Year	Zone Description
USA/Brooklyn	1937	New York's Navy Yard
Europe/Ireland	1959	Shannon Free Zone
Latin America/Colombia	1964	Barranquilla Zone
Dominica Republic	1965	La Romana Zone
India	1965	Kandla Zone
South Korea	1970	Masan Zone
Malaysia	1971	Sungei Way Zone
Philippines	1972	Bataan Zone
Indonesia	1973	Tanjung Priok Zone
China/Guangdong	1979	Shenzhen/Zhuhai/Shantou Economic Zone
Turkey	1985	Free Zone
Africa (Mauritius, Ghana, Liberia, Senegal)	1970	Special Economic Zone
Cambodia	2005	Specialized SEZ (Electronics & Automobile)
Bangladesh	2015	Garment Processing Zone

Note: SEZA,2023

The establishment of SEZs across various economies highlights a strategic global approach to fostering economic development and trade. The inception of such zones began with New York's Navy Yard in Brooklyn in 1937, setting a precedent for future

zones worldwide. By 1959, Europe had introduced the Shannon Free Zone in Ireland, marking a significant move towards creating designated areas for economic activity in the region. Latin America followed with the Barranquilla Zone in Colombia in 1964, and the Dominica Republic established the La Romana Zone in 1965, the same year India inaugurated the Kandla Zone. The 1970s saw further expansion with South Korea's Masan Zone in 1970, Malaysia's Sungei Way Zone in 1971, and the Philippines' Bataan Zone in 1972. Indonesia joined in 1973 with the Tanjung Priok Zone. China made a substantial entry into the scene in 1979 with the Shenzhen/Zhuhai/Shantou Economic Zone, promoting rapid industrialization. Turkey's establishment of a Free Zone in 1985 continued this trend, while Africa represented by Mauritius, Ghana, Liberia, and Senegal also established their Special Economic Zone in 1970. Later developments included Cambodia's specialized SEZ for electronics and automobiles in 2005 and Bangladesh's Garment Processing Zone in 2015, each tailored to specific industrial strengths of the host country. These zones have played pivotal roles in transforming local economies, attracting foreign investment, and boosting exports by providing favorable trading conditions and regulatory frameworks.

4.2 Concept of SEZ in Nepal

The concept of SEZs in Nepal was first formally recognized as part of an export-oriented trade strategy during the Eighth Five-Year Plan (1992-1997). The idea progressed during the Tenth Five-Year Plan, which included carrying out feasibility studies for establishing SEZs. Technical support was initially provided by the International Finance Corporation (IFC), part of the World Bank Group, during the 11th Three-Year Plan (2007-2010). This support aimed to help with the feasibility studies and the preparation of master plans for the Bhairahawa and Simara SEZs. Subsequently, the responsibilities for these initiatives were taken over by the Nepali government, particularly by the SEZ Development Committee, which later evolved into the SEZA following the enactment of the SEZ Act in 2016. The history of the process of development of SEZs in Nepal is provided in table 2.

The development of SEZs in Nepal aimed to foster sustainable and planned industrial growth by creating a trade and investment environment attractive to investors. The goals included attracting modern technology, generating local employment

opportunities, and promoting local value addition and exports to help reduce the national trade deficit. Eighteen locations were identified for the establishment of SEZs, but the progress in infrastructure development and operationalization has been slow. As of now, only the Bhairahawa SEZ is partially operational. The Simara SEZ, designated as a Garment Processing Zone, is still awaiting operation. Several other SEZs are either under construction or in the planning stages. After completing basic infrastructure and approving operational guidelines, the SEZA invited the private sector to invest in the Bhairahawa SEZ. This zone began operations in 2018 with the commencement of production by Shakti Mineral Industry, marking it as the first operational SEZ in Nepal.

Table 2

Evolution of Special Economic Zones in Nepal.

Year	Event	Description
2001	Acquisition of land for Bhairahwa EPZ	GoN acquired 35.218 Ha (87.023 Acres) in Bhairahawa, identified potential industries, and estimated infrastructure costs.
2003	Budget Speech	GoN announced investment in SEZ, drafting of new SEZ law, and identified locations for SEZ including Bhairahwa, Birgunj, Panchkhal, etc.
2005	SEZ Ordinance	Drafting and submission of SEZ Ordinance.
2006	Budget Speech	Commitment to operationalize BSEZ and feasibility study for Birgunj SEZ.
2007	Budget Speech	Announcement of enacting specific SEZ law.
2008	Start of BSEZ Construction	Construction of BSEZ office commenced.
2008	Budget Speech	Announcement of SEZ Act enactment and financial incentives provision.
2008	SEZ Bill	Tabling of SEZ bill in parliament.
2009	Budget Speech	Continuation of infrastructure development in SEZ.
2010	Industrial Policy	Issuance of Industrial Policy granting tax exemptions and other facilities to SEZ industries.

2011	Budget Speech	Announcement of enacting Industrial Enterprises Act and completion of BSEZ.
2012	Budget Speech	Commitment to complete BSEZ within fiscal year end.
2013	SEZDC Establishment	Establishment of SEZ Development Committee under MoI.
2014	Budget Speech	Commitment to operationalize BSEZ and infrastructure development for other SEZs.
2014	Completion of BSEZ Construction	Inauguration of completed BSEZ construction.
2016	SEZ Act 2016	Passage of SEZ Act 2016.
2016	Establishment of SEZA	Creation of SEZA.
2016	Notice for industries	Issuance of request for proposals for operating industries in BSEZ.
2017	Passing of SEZ Regulation	Approval of SEZ Regulation 2017.
2017	Budget Speech	Announcement of operationalizing SEZs and infrastructure development.
2018	Budget Speech	Allocation of budget for feasibility studies and infrastructure development for SEZs.
2019	Amendment to SEZ Act of 2016	Approval of first amendment to SEZ Act 2016.

Note: SEZA, 2020

The Chronological Evolution of Special Economic Zones (SEZ) in Nepal spans from 2001 to 2019, marked by significant legislative, infrastructural, and operational developments. Beginning with the acquisition of land for the Bhairahwa Export Processing Zone (EPZ) in 2001, the government embarked on a journey to establish SEZs across the country, as highlighted in budget speeches and policy announcements. The feasibility stage details of the SEZ in Nepal is shown in table 3. Key milestones include the drafting and submission of the SEZ Ordinance in 2005, the commencement and completion of Bhairahwa SEZ construction in 2008 and 2014 respectively, and the passage of the SEZ Act in 2016. The establishment of the SEZA and the approval of SEZ regulations further solidified the institutional framework for SEZ operations. Budget allocations were consistently directed towards infrastructure

development and feasibility studies, culminating in the approval of the first amendment to the SEZ Act in 2019. Throughout this period, the government remained committed to fostering an environment conducive to industrial growth and export promotion through the establishment and operation of SEZs in Nepal.

Table 3

Current Status of SEZ In Nepal.

No.	Name of Project	Site Area	Current Status
1	Bhairahawa EPZ	38.8 Ha	Operation
2	Simara GPZ	833 Bigha (120.34 Ha for Block A)	Infrastructure development near to completed
3	Panchkhal SEZ	50 Ha	Construction Ongoing
4	Biratnagar SEZ	200 Ha	DPR completed
5	Nuwakot SEZ	70 Ha	Completed Feasibility Study
6	Nepalgunj SEZ	348 Ha	Completed Feasibility Study
7	Rautahat SEZ	55 Ha	DPR completed
8	Gorkha SEZ	60 Ha	Completed Feasibility Study
9	Siraha SEZ	106 Ha	DPR completed
10	Dhangadi SEZ	180 Ha	DPR ongoing
11	Dhanusha SEZ	55 Ha	Completed Feasibility Study
12	Jumla SEZ	47 Ha	DPR Completed
13	Jhapa SEZ	200 Ha	Feasibility Study completed
14	Bardiya SEZ	155.24 Ha	Completed feasibility study
15	Chandrapur SEZ	169 Ha	Completed feasibility study
16	Mohattari SEZ	113 Ha	Completed pre-feasibility study
17	Saptari SEZ	114 bigha	Completed feasibility study
18	Chitwan SEZ	54.87 Ha	Completed feasibility study

Note: SEZA, 2023

The development of Special Economic Zones (SEZs) in Nepal is a strategic initiative aimed at stimulating economic growth through targeted industrialization, export promotion, and foreign investment attraction. Among the numerous SEZs planned and under development, each location has been designated with specific industries that

leverage local resources and market demands, thus enhancing the overall economic impact of these zones.

Bhairahawa EPZ, located in Rohini Rural Municipality, spans an area of 38.8 hectares. It is operational and focuses on industries related to herbals, fruit, and vegetables. This SEZ benefits from its proximity to agricultural regions, making it ideal for processing and exporting agricultural products.

Simara GPZ, situated in Jitpur Simara Sub Metropolitan City, covers a substantial area of 833 bighas, with 120.34 hectares specifically allocated for Block A. This SEZ is near completion in terms of infrastructure development and targets the worn ready-made garment industry. Its strategic location near Simara Airport facilitates efficient export operations, vital for the garment sector.

Panchkhal SEZ, in Panchkhal Municipality, occupies 50 hectares and is currently under construction. This zone is designed to support the milk and milk products industry, leveraging the local dairy farming community and aiming to enhance the value chain through processing and export.

Biratnagar SEZ, spanning 200 hectares in the Sunsari and Morang Districts, with part of it in Biratnagar Metropolitan City, focuses on diverse industries, including food products, handicrafts, leather goods, herbs processing, incense sticks, and automobile spare parts. The Detailed Project Report (DPR) for this SEZ has been completed, and it is poised to become a significant industrial hub in Eastern Nepal.

Nuwakot SEZ, located in Bidur Municipality, covers 70 hectares and has completed its feasibility study. It aims to attract industries involved in forestry, agro and livestock, electronics, and metal-based manufacturing. This SEZ is strategically positioned to utilize local raw materials and workforce, promoting regional development.

Nepalgunj SEZ, situated in Rapti Sonari Rural Municipality, spans 348 hectares. The feasibility study is completed, identifying potential industries such as natural and herbal medicine, agarbatti (incense sticks), paper, fruits, and juice industries. This SEZ leverages Nepalgunj's position as a trade gateway to India.

Rautahat SEZ, in Yamunamai Rural Municipality, covers 55 hectares. The DPR is completed, focusing on leather industries, noodles, dairy products, baby food, sugar,

and distillery industries. This SEZ aims to tap into the agricultural and livestock resources of the region.

Gorkha SEZ, located in Gorkha Municipality, spans 60 hectares. It has completed its feasibility study and targets industries such as copper or aluminium utensils, decorative goods, electrical goods, fruit juice, garments, handmade dress materials, herbs, hide and skins, incense sticks, and candles. This diverse industrial focus aims to revitalize Gorkha's economy post-earthquake reconstruction.

Siraha SEZ, situated in Lahan Municipality, covers 106 hectares and has a completed DPR. It is designed for diamond and gems cutting, electronic goods (TV, computers, recorders, air conditioners, refrigeration equipment), telecom and accessories, silver jewellery, copper/bronze/brass products, and iron and steel products. This SEZ aims to create a high-tech industrial cluster in Siraha.

Dhangadi SEZ, in Godhawari Municipality, spans 180 hectares. The DPR is ongoing, focusing on diamond and gems cutting, electronic goods, and telecom accessories. This SEZ aims to transform Dhangadi into a technological and industrial hub.

Dhanusha SEZ, located in Dhanushadham Municipality, covers 55 hectares. The feasibility study is completed, identifying potential industries such as copper or aluminium utensils, decorative goods, electrical goods, fruit juice, garments, and handmade dress materials. This SEZ is poised to enhance the industrial landscape of Dhanusha.

Jumla SEZ, situated in Kanaka Sundhar Rural Municipality, spans 47 hectares. The DPR is completed, targeting leather processing, pashmina industry, medicinal and aromatic plants, honey processing, apple processing, and local paddy. This SEZ aims to leverage Jumla's unique agricultural produce.

Jhapa SEZ, in Kamal Rural Municipality, covers 200 hectares and has completed its feasibility study. It focuses on agro-forestry industries, capitalizing on Jhapa's rich agricultural resources.

Bardiya SEZ, located in Rajapur Municipality, spans 155.24 hectares. The feasibility study is completed, targeting cement, paper, and oil industries. This SEZ aims to drive industrial growth in Bardiya.

Chandrapur SEZ, in Chandrapur Municipality, covers 169 hectares. The feasibility study is completed, focusing on agriculture-based, handicraft, and minerals-based industries. This SEZ aims to diversify Chandrapur's industrial base.

Mohattari SEZ, situated in Bardibas Municipality, spans 113 hectares. The pre-feasibility study is completed, identifying agro and forest-based, assembling industries as potential sectors. This SEZ aims to stimulate local economic growth.

Saptari SEZ, located in Khadak Municipality, covers 114 bighas and has completed its feasibility study. It focuses on agro-based, non-timber forest products, and cotton industries. This SEZ aims to enhance Saptari's agricultural value chain.

Chitwan SEZ, in Khaireni Municipality, spans 54.87 hectares. The feasibility study is completed, targeting agriculture, forest products, and minerals industries. This SEZ aims to leverage Chitwan's agricultural and mineral resources for industrial growth.

4.3 Major Characteristics of SEZ

Special Economic Zones (SEZ) represent an advanced iteration of Export Processing Zones, often referred to as "Free Trade Zones," encompassing various sectors such as Export Processing Zones, Special Trade Zones, Tourism-Entertainment Zones, Information and Technology Parks, and Banking. The primary objectives of establishing SEZs are manifold: to enhance the competitive capacity of export-oriented goods and services globally, attract Foreign Direct Investment (FDI), facilitate the inflow of domestic and foreign capital along with cutting-edge technology through streamlined processes, and broaden international trade. While the costs to the nation entail investments in land, infrastructure, and construction, coupled with tax exemptions, the benefits include returns from labor, rental income, and revenue from SEZ administration and supporting agencies. SEZ investors enjoy simplified procedures under the "One Window Policy," liberal tax regimes with exemptions, repatriation of investment, immigration facilities, and streamlined services ranging from customs to healthcare. SEZs operate under production-oriented labor laws, fostering a conducive environment for industrial growth while adhering to principles of sustainability and collaborative partnership outlined in the Industrial Policy of 2011, aimed at promoting balanced national development, enhancing

industrial productivity, and nurturing entrepreneurial ecosystems with a focus on technology and resource utilization.

4.3.1 Financial Incentives

The Special Economic Zone Act and the Tax Act in Nepal offer substantial financial and non-financial incentives to encourage investment within the zones. Investors operating within SEZs benefit from a full tax exemption for the first five years, followed by a 50% exemption for the remaining duration of their contract. This incentive is even more attractive in hilly or mountainous districts, where the full tax exemption extends to the first ten years. Additionally, foreign investors have the privilege of nearly 100% repatriation on returns from the sale of shares, profits, or dividends derived from their investments, as well as on the repayment of foreign capital loans and interests. Transactions must adhere to the currency terms specified in the investor agreement. Moreover, there are zero VAT charges on exports or sales to other industries within the SEZ, and customs duties are waived on imports of plant/machinery, tools, spare parts, raw materials, auxiliary materials, and packaging materials, including up to three vehicles. Investors also enjoy a tiered rebate on land rent, with reductions of 50%, 40%, and 25% for the first, second, and third years, respectively. These benefits are designed to attract investments, enhance industrial growth, and bolster economic development in designated areas.

4.3.2 Non-Tourist Visa Facilities

SEZs offer a non-tourist visa for six months specifically for conducting feasibility studies, which is crucial for investors to assess potential projects. Foreign investors, their staff, and dependents can obtain business visas, facilitating easier movement and residency for business purposes. Additionally, a residential visa is available for those who invest a minimum of 10 million USD or its equivalent in convertible currency, valid for the duration of the investment in the industry. These visa facilities simplify the logistical challenges associated with international business operations.

4.3.3 Bonded Warehouse and Other Operational Benefits

Investors in SEZs benefit from bonded warehouse facilities, allowing for the duty-free storage of goods, which can significantly reduce operational costs. The option for sub-contracting within SEZs and the allowance for depreciation at an accelerated rate are further financial incentives that enhance the attractiveness of investing in these zones.

These provisions support cost-effective manufacturing and operational flexibility, critical for competitive international business.

4.3.4 One-Stop Service Centre

The concept of a one-stop service centre in SEZs simplifies administrative processes for investors. This facility centralizes essential services like industry and company registration, Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) approvals, tax registration, and access to banking, insurance, and freight forwarding services. This integration is designed to reduce bureaucratic hurdles and streamline business operations, making the setup process more efficient and less time-consuming.

4.3.5 Readymade Infrastructure

SEZs provide investors with ready-to-use infrastructural facilities, which include well-appointed industrial plots, internal roads, and utilities like power and water supply, along with drainage systems and wastewater treatment plants. Additional amenities such as fuel stations, weighbridges, recreation zones, childcare centers, first aid services, and cafeterias create a conducive working environment. These facilities reduce the initial capital and time required to establish operations, thereby accelerating the start-up phase for businesses.

4.3.6 Liability and Investor Obligations

Investors operating within SEZs are required to adhere to specific rules and regulations set by the SEZA. A key regulation is that at least 60% of manufactured products must be exported. This stipulation is designed to promote export-oriented industrial growth, which aligns with the broader goals of reducing the national trade deficit and fostering economic development through increased international trade.

4.4 Purpose and Prospects of SEZ

The concept of SEZ has been implemented to advance the process of industrialization in the country by attracting domestic and foreign investment for the development and promotion of exportable industries. To establish and manage this sector, SEZ Act,

2016 has been implemented. The SEZA has been established to build the infrastructure of the SEZs, to establish industries, to estimate the established industries, and to provide one-stop service to such industries. The aims to create employment through the operation of this sector, increase the price of indigenous raw materials, and develop the latest technology as well as help in reducing the national trade deficit.

SEZs to increase exports by establishing industries by constructing various plots, reducing the trade deficit, import-substitution, creating employment, increasing access to domestic products in foreign markets, increasing industrial sector contribution to GDP, utilizing local raw materials, resources and it aims to build a prosperous economy through industrialization.

The prospects for SEZs in Nepal are promising due to a combination of factors ranging from strategic reforms to advantageous geographical location, which collectively create a fertile ground for both domestic and foreign investment.

4.4.1 Policy, Institutional, and Procedural Reforms

Nepal has undergone significant legal reforms to make its economic environment more investment-friendly. Amendments to more than a dozen economic-related laws, including the SEZ law and labor acts, have been designed to simplify the investment process. Dedicated institutions like the SEZA, Investment Board Nepal (IBN), Department of Industry (DOI), and Ministry of Industry (MOI) have streamlined approval processes, enhancing the ease of doing business.

4.4.2 Access to Market

Nepal's strategic position between India and China provides vast market opportunities. The country is part of multiple regional and international trade organizations such as WTO, SAARC, and BIMSTEC, and enjoys duty-free access to key markets in India and China, alongside special trade concessions from the EU and the US. This broad market access is a significant draw for investors looking to produce in Nepal and export to these large markets.

4.4.3 Limited Competition and Vibrant Market

The investment landscape in Nepal faces relatively limited competition, which presents a unique advantage for new entrants. Additionally, a rapidly growing consumer market offers a robust demand base for new businesses.

4.4.4 Young and Energetic Human Resources

With 61% of its population aged between 15 to 65, Nepal boasts a young, energetic, and increasingly educated workforce. This demographic advantage is ideal for labor-intensive industries, which are prominent features of SEZs.

4.4.5 Infrastructure Development

Ongoing improvements in industrial infrastructure such as roads, power projects, and the development of Cross Border Economic Zones are enhancing Nepal's attractiveness. These developments support the potential for subcontracting and clustering among industries, which is crucial for attracting FDI and promoting international trade.

4.4.6 International Agreements

Nepal has Double Taxation Avoidance Agreements (DTAA) and Bilateral Investment Promotion and Protection Agreements (BIPPA) with several countries, facilitating safer and more profitable investment conditions. These agreements reduce legal and financial risks associated with foreign investments.

4.4.7 Trade Connectivity

Enhanced port facilities with India and China, along with improving railways and waterways, boost Nepal's logistical capabilities. Agreements such as the BIMSTEC grid interconnection and transshipment procedures using electronic cargo tracking systems further enhance Nepal's role as a trade facilitator.

4.4.8 Incentives and Facilities for FDI and Export-Oriented Industry

Nepal offers substantial incentives for foreign direct investment, including 100% foreign ownership in most sectors and easy repatriation of profits. These incentives are complemented by additional benefits within SEZs, such as financial and non-financial incentives tailored to boost investment and exports.

4.4.9 Easy Access to Visa

The provision of non-tourist visas for feasibility studies and business visas for foreign investors and their families during the investment period simplifies the bureaucratic process and makes Nepal an attractive destination for international business operations.

4.4.10 Creating a Conducive Environment

At the federal and local levels, governments are actively competing to attract investment by offering attractive incentive packages. This competitive dynamic fosters a business-friendly environment and accelerates economic development at multiple levels.

4.5 Policy and Laws

SEZ Act was approved by the Parliament and promulgated on the 4th of October, 2016. The SEZ Act offers genuine opportunities for increasing exports by accelerating growth in the manufacturing sector. It has addressed constraints related to land, poor infrastructure, high costs of labor, administrative delays, and coordination challenges. SEZ can serve as an effective facilitator for accelerating private investment, especially for enhancing manufacturing growth and generating productive employment. Since its passing, a number of important business houses in Nepal have applied for space within the SEZ. Similarly, the GoN adopted the Regulations for the SEZ Act on 25th of September 2017 (Economic Policy Incubator Nepal, 2019).

The SEZ Act, 2016 and SEZ Regulation that came into effect from September 2017 have specific provisions that make it attractive for investors to establish industries in SEZs. The SEZ Act has envisioned the establishment of SEZA to construct or

maintain physical infrastructure in the SEZ, monitor and regulate industries established in the SEZ and provide one-stop service. The private sector is allowed to establish, operate and manage the special economic zone. However, existing industries operating outside SEZ can't be relocated in the SEZ. The industry established in SEZ must export 60 percent of total production or service. If it fails to do so, it will not be entitled to receive facilities and incentives provided by the Act. The industry established in SEZ will receive a rebate on the rent of land or building which are taken on lease for three years (Nepal Investment Guide, 2018).

Industries having rented Land or Building inside SEZ are entitled to concessions in the rent or lease amount: First year: 50%; Second year: 40%; Third year: 25%. There is the provision of 100% Income Tax exemption for the first 5 years from the commencement of commercial transactions of the products. 50% Income Tax exemption for the following 5 years, 50% exemption for the following 10 years if the industry utilizes a minimum of 60% domestic raw materials (SEZ Act, 2016).

According to the SEZ Act, industries inside SEZ of Himalayan Region and Government specified Hilly regions will get 100% income tax exemption for the first 10 years from the date of commencement of commercial transaction of the products and 50% percent exemption for the following 10 years. 100% exemption in dividend distributed by such industries for the first 5 years from the date of commencement of commercial transaction 50% exemption in the following 3 years and the industries relocated in SEZ are not entitled to income tax exemptions listed above. Provision of 0% VAT on goods and services exported by industries and 0% VAT on raw materials and finished goods imported by industries (SEZ Act, 2016). Industries inside SEZ are entitled to Custom Duty exemption under Bank Guarantee and other facilities: raw materials, auxiliary raw materials, packaging and other materials used for producing export products; plants, machinery, equipment, tools, and spare parts and maximum 3 (three) vehicles depending upon the nature and size of the industry.

The Act serves as a stepping stone towards the implementation of SEZ in the country. It is still in the initial stage and a long and arduous way ahead since everything rests on the combined will of the political parties as the political stability is yet to be solidified in the country. Nevertheless, the legal framework has been issued having the salient features where export-oriented industries and industries based in export

promotion houses, and SEZs are entitled to get declared facilities and assistance on customs duty, excise duty, and VAT. These facilities and incentives are hoped to be instrumental in drawing potential investors to establish SEZ in Nepal.

4.6 Bhairawa SEZ

The characteristics of the Bhairawa SEZ is further summarized in the Table 4.

Table 4

Characteristics of Bhairawa SEZ

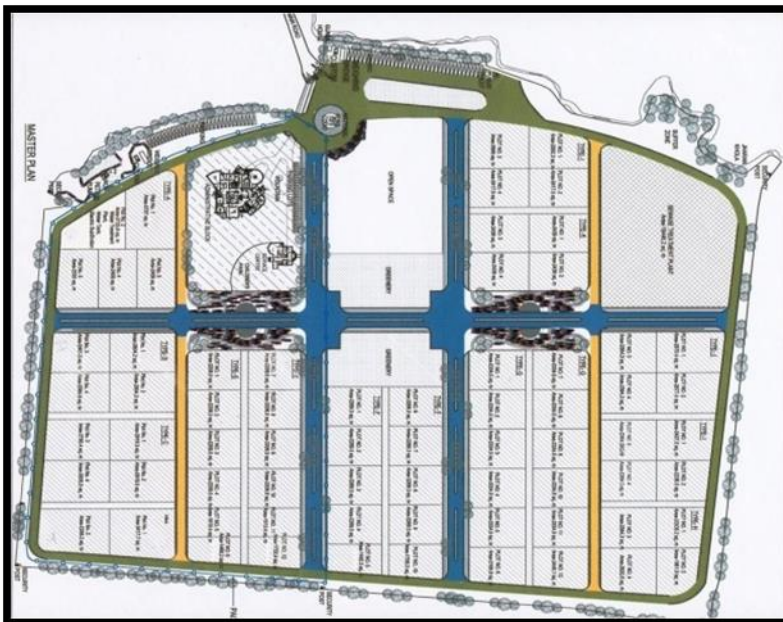
Features	Characteristics
General	
Name of Project	Bhairahawa SEZ
Type	Special Economic Zone
Sector	Industry
Project Location	
Project Area	Province 5 Rohini Gaupalika
Distance	4km from Bhairahawa airport, 200 miles from BhairahawaBelahiya bypass highway.
Project Component/Technology	
Project Site Area	67 plot
Electric Supply	Near to SEZ area
Construction Status	Operation
Development Modality	
Development modality	Developed by Special Economic Zone Authority
Role of Government of Nepal	<ul style="list-style-type: none"> • Provide acquired land of 68 plot • Development of industries guideline and policies • Provide incentives and facilities • Provide other services like security, one stop services etc.
Role of Private Sector	Investment for setting up of industries
Development Period	8 years

Note: SEZA, 2020

The Bhairahawa Special Economic Zone project, located in Rohini Gaupalika of Province 5 in Nepal (Figure 1), marks a significant development initiative in the industrial sector. Spanning across 67 plots, the project sits approximately 4 kilometers from Bhairahawa airport and 200 miles from the Bhairahawa-Belahiya bypass highway. With a focus on industries ranging from fruit and vegetable processing to garment manufacturing, cement production, and herbal extracts, the SEZ presents a diverse array of investment opportunities. Notably, the project boasts of proximity to electric supply infrastructure, further facilitating operations. The SEZ is currently in operation, signaling a stage of advanced development. The project is governed by the Special Economic Zone Authority, with the Government of Nepal playing a pivotal role in providing land, formulating industry guidelines, offering incentives, and ensuring essential services such as security and one-stop services. Conversely, the private sector's involvement primarily lies in investing in the establishment of industries within the SEZ. The development period spans eight years, reflecting a long-term commitment to fostering industrial growth and economic development in the region.

Figure 3

Plots within Bhairahawa SEZ



Note: SEZA, 2020

From 2061 to 2075, land acquisition, construction of boundary walls all around, construction of access road from National Highway to BSEZA, construction of internal road and sewerage to reach each plot, administrative building service were completed. Site development of buildings, construction of internal transmission lines, wastewater treatment plant, the overhead water tank and distribution of network, telephone line and street light, heavy vehicle parking, weighing bridge, petrol pump, administrative and service building, security check post, helipad, garden, badminton court, lawn tennis court, road railings, light vehicle parking, etc. had been also completed. But, these physical structures are in a state of disrepair due to lack of use. The service building is not operational due to a minor maintenance problem. Construction of a children-park, labor quarter and the recreational zone is in the pipeline.

However, the area does not have a dedicated line necessary for the industry. The process has now been in the phase of completion.

For water supply, 15 cm water pipes buried to supply in each plot and currently installed in the southern section of SEZ. 40 cm sewage outflow pipes buried to supply from each plot and currently installed in southern section of the SEZ. The sewage treatment facility is planned, but not yet tendered and the SEZA will provide secondary liquid waste treatment and cover 16,000 m², which will be suitable for common biological wastes, but not for toxic chemical waste from leather, pharmaceuticals, or other caustic waste producing industries; which will discharge treated greywater to a nearby natural stream. According to the SEZ official, Solid waste disposal is not yet planned within the zone for disposal of solid wastes, including tenant garbage and sludge by-products of waste treatment. The processing of solid wastes is done with the coordination of the Municipality.

Perimeter roads are two-lane, 7 meters wide. Other internal roads are two lanes, 9 meter wide; some are divided by a median and 10.2 metric tons per axle, unless weight limits are enforced, overloaded trucks carrying up to 16 tons, per axle will likely ply SEZ roads, causing premature deterioration. SEZ connection road links SEZ to Siddhartha Highway. Distance to Kathmandu from BSEZ is approximately 280 kilometers and the distance to the Indian border is 3 kilometers. Distance to

Bhairahawa Airport is 8 kilometers from BSEZ connected with 7 meters wide road. The inner road have been deteriorating with the lack of maintenance.

Table 5

Industries within Bhairahawa SEZ

S.No	Industry	Status
1	Shakti Minerals Pra. Li.	Operating
2	Vistaar Global Pvt. Ltd	Operating
3	Tirupati Metal Pra. Li.	Operating
4	Brilliant Lighting Industries	Operating
5	Panchakanya SS Pvt. Ltd	Operating
6	Yes Plastics Products	Operating
7	Jay Buddha Metal Crafts	Temporarily Closed
8	Mishakh Shekh / HN Agro	Agreement Made
9	Himalayan Granite Pra. Li.	Under Construction
10	Arshi Industries Pra. Li.	Under Construction
11	Dipesh Chalise	Agreement Made
12	Spurt Electric Ltd	Under Construction
13	Sayami Stores Pra. Li.	Agreement Made
14	Alliance Metaware Private Limited	Agreement Made
15	Tanya Agro Pra. Li.	Agreement Made
16	Data World Pra. Li.	Agreement Made
17	Ganga Industries Pra. Li.	Agreement Made
18	Shree Econepal Industries Pra. Li.	Agreement Made
19	Shahnawaz Ali	Agreement Made
20	Shree Hiranya Garbha Pra. Li. (Classic Diamond)	Agreement Made
21	Dhan Bahadur Gurung	Permission granted
22	Amar Bahadur Budha	Permission granted
23	Amar Bahadur Budha	Permission granted

Note: SEZA, 2023

Operating: This status indicates that the industries are currently operational and actively conducting business. The majority of industries listed are in this category, showing a diverse range of operations from minerals to plastics and metal works (Table 5).

Temporarily Closed): Jay Buddha Metal Crafts is the only industry marked as temporarily closed, which indicates a suspension of operations possibly due to various reasons such as maintenance, renovation, or external factors affecting business (Table 5).

Under Construction: Industries such as Himalayan Granite, Arshi Industries, and Spurt Electric Ltd are currently under construction. This status means these facilities are in the process of being built or set up, preparing for future operations (Table 5).

Agreement Made: Several industries like Mishakh Shekh/HN Agro and others have reached agreements, likely pertaining to lease, operations, or investment. This status indicates that these industries are in the preparatory phase, having secured necessary agreements or approvals to start operations or construction (Table 5).

Permission Granted: Amar Bahadur Budha and others in this category have received the necessary permissions, probably related to environmental, building, or operational permits, which are crucial before commencing any construction or operational activities (Table 5).

4.7 Simara SEZ

The Simara Garment Processing Zone (SimaraGPZ) project, situated in Gadhimai Municipality of Bara district within Province 2 of Nepal (figure 1), represents a focused initiative in the garment processing industry under the auspices of the Special Economic Zone Authority. Spanning an area of 120.34 hectares, the project aims to leverage the strategic location, located just 2 kilometers east from Simara Airport, for efficient operations. It is currently in the phase of construction at Block A while actively seeking private sector investments for Blocks B, C, D, and E. The project benefits from proximity to the Simara Substation, approximately 3 kilometers away, ensuring adequate electric supply. In terms of development modality, the Government of Nepal plays a pivotal role by providing the acquired land, formulating industry

guidelines and policies, offering incentives and facilities, and ensuring essential services such as security and one-stop services. Conversely, the private sector's role lies in investing in both industry and the SEZ itself. Currently there are only one organization operating within the SEZ of Simara.

Table 6

Characteristics of Simara SEZ

Features	Characteristics
General	
Name of Project	SimaraGPZ
Type	Garment Processing Zone
Sector	Industry
Project Location	
Project Area	Province 2 Located in Gadhimai Municipality of Bara district, 2km east from Simara Airport
Project Component/Technology	
Proposed Site Area	120.34 ha
Electric Supply	Simara Substation (2*15MVA): Approx. 3km from SEZ area
Current Status	Construction work started at Block A & seeking private sectors investment in Block B, C, D & E
Development Modality	
Development modality	Developed by Special Economic Zone Authority
Role of Government of Nepal	<ul style="list-style-type: none"> • Provide acquired land of 120.34 hectare • Development of industries guideline and policies • Provide incentives and facilities • Provide other services like security, one stop services etc.
Role of Private Sector	Investment for industry & SEZ
Development Period	3 years

Note: SEZA, 2020

Figure 4*Plots within Simara SEZ*

Note: SEZA, 2020

The Simara Garment Processing Zone (SimaraGPZ) project, situated in Gadhimai Municipality of Bara district within Province 2 of Nepal, represents a focused initiative in the garment processing industry under the auspices of the Special Economic Zone Authority. Spanning an area of 120.34 hectares, the project aims to leverage the strategic location, located just 2 kilometers east from Simara Airport, for efficient operations. It is currently in the phase of construction at Block A while actively seeking private sector investments for Blocks B, C, D, and E. The project benefits from proximity to the Simara Substation, approximately 3 kilometers away, ensuring adequate electric supply. In terms of development modality, the Government of Nepal plays a pivotal role by providing the acquired land, formulating industry guidelines and policies, offering incentives and facilities, and ensuring essential services such as security and one-stop services. Conversely, the private sector's role lies in investing in both industry and the SEZ itself. Currently there are only one organization operating within the SEZ of Simara.

4.8 Issues and Challenges

Despite their perceived advantages and occasional success stories, SEZs have encountered mixed outcomes globally. In many instances, the costs associated with investing in zone infrastructure and maintenance outweigh the benefits, with investors sometimes exploiting tax incentives without delivering significant employment or export earnings. Moreover, extending benefits beyond the zones or upgrading domestic skills and production bases has proven challenging. While traditional export processing zones initially attracted investment and generated employment, they often became uncompetitive as wages rose or trade preferences vanished. Assessing Nepal's investment climate against various parameters reveals shortcomings in infrastructure, policy stability, legal framework, banking and financial sector capacity, human resource profile, bureaucratic responsiveness, and internal security. Although the SEZA was established to expedite economic development through export promotion and industrialization, its operations have not met expectations. While the Bhairahawa SEZ has been inaugurated, it has failed to attract significant investor interest, prompting the government to initiate groundwork for five additional SEZs across the seven provinces. The lack of enthusiasm among entrepreneurs to relocate their industries to SEZs has jeopardized the substantial government investment in these zones. An analysis of the current legal and institutional framework, infrastructure construction status, land lease arrangements, stakeholder interactions, and local sentiments highlights the challenges faced by SEZs, underscoring the need for reforms and strategic interventions.

Table 7*Summary of the Challenges*

S.N.	Challenges	Remark
1	Political Commitment and Support	Struggle to progress without unanimous political support
2	Legal and Institutional Framework	Bureaucratic inefficiencies, procedural complexities, and structural bottlenecks
3	Administration and Management	Lack of autonomy and experience
4	Delegation of Authority	Centralization of authority
5	Mandatory Export Ceiling	Export requirement of 60% is challenging
6	One-Window Unit	not effectively implemented
7	Rent of Plots	The high land rent
8	Research and Development	Lack of focused research on Nepal's comparative advantages and competitiveness
9	Transparency	Mistrust and lack of transparency
10	Contradiction and Overlapping of Policies and Institutions	Overlapping responsibilities and contradictory regulations
11	Industrial Districts/Parks vs. SEZs	The lack of clear distinction
12	Policy Clarity	Ambiguities in policies

Note: Field Survey, 2024

4.8.1 Political Commitment and Support

Until all the political parties express their commitment to SEZ development, SEZ will have a tough time in progress. What is also needed is a leadership that recognizes this and uses its supermajority status to create a conducive-environment.

4.8.2 Legal and Institutional Framework

SEZ requires dedicated policy and legal support to be successful. Unless a country has a significant comparative advantage in labour costs or a large internal market, a

number of factors need to come together for zones to be successful in attracting and retaining investment, including: location, policy, planning, legal framework, infrastructure, and management. The promotion of SEZs is an attempt to deal with infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies. These structural bottlenecks affect the investment climate adversely by increasing production and transaction costs.

Policies to promote links between SEZs and the domestic economy are the key to realizing the dynamic potential of zones. Countries that have been successful in deriving long-term economic benefits from their SEZ programs have established the conditions for ongoing exchange between the domestic economy and investors based on the zones. This includes investment by domestic firms into the zones, forward and backward linkages, business support, and the seamless movement of skilled labour and entrepreneurs between the zones and the domestic economy.

Nepal's SEZA Act, 2016 has tried to address every necessity of the SEZ characteristics. However, entrepreneurs during interaction expressed difficulties for industries in SEZ to abruptly start exporting 60 percent of their production which has been one of the requirements for firms wanting to construct inside SEZ. During the interaction, SEZ official stated;

“ the major challenge has been the 60% ceiling which has impacted the attitude of the investor. One of the industry within the SEZ Bhairawa was not able to meet the 60% ceiling which had resulted in barring any form of export for the industry”

Nepal, though has brought a dedicated law to govern SEZ, there is still a need to further support such law that would establish ease in business. Evidence from successful SEZ has shown that the fate of zone initiatives, to a great extent, has been determined from the outset, by the choices made in the establishment of policy frameworks, incentive packages, and various other provisions and bureaucratic procedures. This demands the requirement to frame laws and institutions as required by investors. However, foreign investors are still sceptical about the quality of the domestic institutions and the enforceability of the law and would think twice before investing in Nepal.

4.8.3 Administration and Management

SEZ requires autonomous and participatory management. To a great extent, the fate of zone initiatives has been determined from the outset, by the choices made in the establishment of policy frameworks, incentive packages, and various other provisions and bureaucratic procedures. Most of the zone developers, including the relevant government agencies, do not have the zone management and operational experiences, and many zone developers are only construction companies; therefore, it's a challenge for them to identify the right partners to provide the critical knowledge and expertise on Zone management and operations.

In many of the African SEZs, the authority responsible for developing, promoting, and regulating the program lacks resources and capacity to carry out their mandate. Of equal importance, they often lack the institutional authority to do so. By contrast, in successful zone programs, the regulatory authority is often autonomous, but anchored to a central ministry such as President, Prime Minister, or Ministry of Finance, and supported with sustainable budgets. Institutional reforms and capacity building are needed in many zone programs.

In an interview with the Information Officer in the SEZA, he said that "although SEZA has been established as an autonomous body for the operation and management of SEZ by providing 'one stop service', it has not yet been able to provide every service as expected by investors in SEZ." This is because there are other offices which are related with economic activities and which has their own rules and regulations while dealing with processes and commodities that makes the process lengthy and time-consuming which is not what an investor would seek for his investment.

Entrepreneurs expressed that due to the poor management and inability of SEZA sufficient power could not be provided in SEZ. The owner of the Granite Industry stated that due to lack of proper substation dedicated to industry, frequent powercut are seen. Similarly, the respondent 2 stated that there has been challenges of waste management and they are forced to burn the waste within the premise.

It is important to have effective rules in place that are easy to follow and understand. To realize economic gains and encourage economies to flourish, unnecessary red tape should be eliminated. Though provisions in SEZ Act seem progressive and friendly to

investors, there is still room for doubt while considering the working process where investors feel uneasy to proceed with their project.

4.8.4 Delegation of Authority

While the SEZA Head Office is located in Kathmandu, every SEZ unit is required to have its own office on-site, as is the case with the BSEZ office in Bhairahawa. So far, the powers and responsibilities for the functioning of each SEZ office seem centred only in the Head Office. At present, the BSEZ is the only operational SEZ. Most of the plots within it have been leased and investors have gradually established their units. At this stage, it is natural to have a full-fledged BSEZ office for the operation and management of the BSEZ in a seamless way. The entrepreneurs expect the service by the BSEZ office to be prompt and responsive. All kinds of correspondence including the local correspondence with the investors and other relevant agencies are required to be routed through the head office. This has made the BSEZ office redundant due to inadequate human resources, lack of proper planning, and lack of authority.

On another side, according to the Officials of SEZA, all in all, the prevailing laws have constrained the independence and self-governance of SEZA. The inadequate delegation of authority from the Board to the Executive Director and similarly from Executive Director to the Head of BSEZ Office, has put in question the functionality of the BSEZ. SEZA is required to request approval from the Ministry of Finance (MoF) to make any decisions that result in any amount of extra burden on the national treasury. This requirement prevents SEZA from being able to make decisions on the recruitment of employees required to operate and manage SEZs. Such provision has constrained the internal administration of the SEZs too. SEZA appears to function more like a department under ministries for carrying out the GoN's normal administrative work than as an independent Authority.

4.8.5 Mandatory Export Ceiling

During the interaction one entrepreneur stated that

"There has been major challenges in meeting the mandatory export ceiling, which has resulted in complete shutdown of business along with lack of attraction towards other entrepreneurs".

According to them, the lack of foreign markets for Nepalese products, unavailability of local raw materials, highly competitive and unpredictable foreign markets are some of the major factors which impact investors' ability to comply with the mandatory export requirement. The requirement has been a major setback for most investors to invest in SEZs. Citing that producers need ample time to promote their products in the international market, the entrepreneurs said that the government should not fix export limits of goods produced within the SEZ. *"Once they develop necessary markets in foreign countries, industries will gradually comply with the government's export provision,"* the entrepreneurs said. According to the entrepreneurs, "the main reason to withdraw the agreement of land lease is the mandatory export ceiling". Entrepreneurs are doubtful that the mandatory export requirement provides any attractiveness to investors.

4.8.6 One-Window Unit

Although there is a concept of a one-stop service center within SEZs, its implementation has been lacking. Investors face significant hurdles in accessing necessary services and facilities, which are supposed to be streamlined through these centers. The inefficacy of such centers, especially in key areas like the Bhairahawa SEZ, highlights the gap between policy intent and practical execution.

Entrepreneurs expressed that the concept of SEZ has become ubiquitous as an infrastructural facility. BSEZ provides a combination of tax and tariff incentives, streamlined custom procedures, and less regulation by offering an investment climate that attracts both foreign and domestic investors to invest and establish industrial and business units. With an aspiration to promote and diversify the export market, the GoN, in 2016, had introduced the SEZ Act which evoked immense interest among the investors' community in Nepal. But it seems that the much-hyped SEZ is losing its appeal among the domestic investors.

4.8.7 Rent of Plots

During the interaction entrepreneurs stated,

"The land rent, Rs. 20 per square meter per month, which is much higher than international standards and in comparison to the other Industrial Estate of Nepal, is yet another matter of distress as it cannot just financially burden the investors, but deter their participation in BSEZ."

The entrepreneurs are complaining that the rent is still higher than outside the SEZ. While studying the rate of Industrial Estate of Nepal, the highest rate is in Balaju Industrial Estate. In Balaju Industrial Estate, there is below Rs. 5 per square meter in the productive sector and below Rs. 20 per square meter in the non productive sector. One of the entrepreneur even stated that rather than renting the industry might opt for purchasing the land.

4.8.8 Insufficient Research and Development

There is a notable deficiency in research focusing on the comparative advantages and competitiveness of Nepal's industries. This lack of focused research affects strategic decision-making for SEZs, as it is crucial to understand and leverage Nepal's unique strengths in the global market. The slow progress in infrastructure development in key zones like the Bhairahawa SEZ can be partly attributed to these gaps in strategic planning and research.

4.8.9 Transparency Issues with the Private Sector

The relationship between the government and private sectors in Nepal is often strained, marked by mistrust and a lack of transparency. This discord hampers the effectiveness of government policies and leads to compliance issues, affecting the overall investment climate and the operational success of SEZs.

4.8.10 Contradiction and Overlapping of Policies and Institutions

Investment-related policies in Nepal involve multiple governmental institutions, which can lead to overlapping responsibilities and even contradictory regulations. This complex bureaucratic structure makes it difficult for investors to navigate the

investment process, from registration and approval to taxation and repatriation, leading to potential delays and increased operational costs.

4.8.11 Industrial Districts/Estates vs. SEZs

The distinction between industrial districts/parks and SEZs is not clearly defined, leading to potential overlaps in functions and benefits. This ambiguity complicates the landscape, as Nepal already has numerous industrial districts in operation and others under construction. Without a strategic framework to differentiate and manage these zones, there is a risk of inefficiency and resource duplication.

4.8.12 Lack of Policy Clarity

The process of declaring SEZs in Nepal is hampered by the absence of clear guidelines or procedures. This lack of clarity extends to the comprehensive assessment of potential zones, which should ideally include considerations of local resources like raw materials and labor, as well as infrastructure such as transportation and electricity supply. Without these detailed evaluations, the zones may not be optimally located or equipped to fulfill their intended economic roles.

4.9 Potential Solution

The potential solution to address the issues and challenges of effectiveness of SEZ in Nepal is shown in the Table 8.

Table 8

Summary of Potential Solution

S.N.	Potential Solution	Remark
1	Iterative Approach to SEZ Implementation	Implementing SEZ policies in phases and monitoring their impact
2	Experienced Zone Developers	Engaging experienced developers
3	Incentives	Providing stable tax breaks, customs duty exemptions, and streamlined processes
4	Pioneer Firms	Attracting pioneer firms
5	SEZ Regulations	Revising SEZ regulations for legal harmony
6	Guidelines and Procedures	Developing comprehensive guidelines and conducting feasibility studies

7	Differentiating SEZs from Industrial Parks	Establishing clear distinctions between SEZs and industrial parks
8	Policies and Institutional Roles	Simplifying the investment process
9	One-Stop Service Centers	Fully operational one-stop service centers
10	Transparency and Building Trust	Regular consultations and transparent communication
11	Research and Development	Boosting research and development

Note: Field Survey, 2024

4.9.1 Iterative Approach to SEZ Implementation

Adopting an iterative approach to SEZ implementation entails implementing policies in phases and closely monitoring their impact before scaling up. By starting with small-scale trials, the government can assess the effectiveness of different policies and adapt them to suit local conditions. For example, pilot SEZ projects can be launched in specific regions, allowing policymakers to evaluate the regulatory framework, infrastructure requirements, and investment incentives. Through continuous evaluation and feedback mechanisms, policymakers can identify successful strategies and refine or discard ineffective ones. This iterative process fosters flexibility and responsiveness, enabling policymakers to tailor SEZ policies to the evolving needs of investors and the local economy. Additionally, it minimizes the risk of large-scale failures by allowing for adjustments based on real-world outcomes, ultimately increasing the likelihood of successful SEZ development nationwide.

4.9.2 Engagement of Experienced Zone Developers

Engaging experienced zone developers is essential for the successful planning, development, and management of SEZs. These developers bring valuable expertise, networks, and resources to the table, streamlining the implementation process and attracting investment. Experienced developers understand the complexities of establishing and operating SEZs, including navigating regulatory requirements, securing financing, and marketing the zone to potential investors. Their involvement instills confidence among stakeholders and enhances the credibility of SEZ projects, making them more attractive to both domestic and foreign investors. By leveraging their industry knowledge and track record of success, zone developers play a pivotal role in accelerating SEZ development and driving economic growth.

4.9.3 Stable and Attractive Incentives

Providing stable and attractive incentives is crucial for overcoming investor reluctance and stimulating interest in SEZs. These incentives may include tax breaks, customs duty exemptions, streamlined administrative processes, and access to infrastructure. Stability in incentive policies is essential for providing investors with certainty and confidence in the long-term viability of their investments. By creating a

favorable business environment, governments can encourage more companies to establish operations within SEZs, leading to increased job creation, technology transfer, and export growth. Additionally, transparent and predictable incentive schemes help to level the playing field for investors, reducing uncertainty and perceived risks associated with SEZ investments.

4.9.4 Attract Pioneer Firms

Focusing on attracting pioneer firms is a strategic approach to showcasing Nepal as a viable production location and jump-starting industrialization and employment growth. These pioneer firms, often industry leaders with significant resources and expertise, serve as anchor tenants within SEZs, attracting suppliers, service providers, and complementary industries. Their presence not only validates the potential of SEZs but also creates a multiplier effect, stimulating economic activity and investment in surrounding areas. Moreover, pioneer firms contribute to knowledge transfer, skill development, and technology diffusion, enhancing the competitiveness of the local economy. By prioritizing the attraction of pioneer firms, Nepal can accelerate its industrialization process and position itself as a regional hub for manufacturing and trade.

4.9.5 Revision of SEZ Regulations

Revising SEZ regulations to ensure legal harmony, particularly regarding tax benefits and export requirements, is essential for creating a conducive environment for investment in SEZs. Addressing inconsistencies and conflicts among various laws and regulations governing SEZs provides clarity and certainty to investors. Harmonizing tax incentives, export requirements, and regulatory frameworks reduces compliance costs and administrative burdens for businesses operating within SEZs. Streamlining regulations also enhances transparency and accountability, fostering trust between the government and private sector stakeholders. Additionally, clear and consistent regulations attract more investors, spur economic growth, and facilitate sustainable development within SEZs and the broader economy.

4.9.6 Establishing Clear Guidelines and Procedures

The first step towards resolving the ambiguity around the establishment of SEZs is to develop clear, comprehensive guidelines and procedures. This includes conducting detailed feasibility studies that consider all critical factors such as availability of raw materials, labor force skills, infrastructure adequacy, transportation connectivity, and access to international markets. Clear policies will help ensure that SEZs are established in locations that are strategically chosen to maximize economic benefits.

4.9.7 Differentiating SEZs from Industrial Parks

To avoid overlap and ensure efficient resource utilization, there should be a clear distinction between the benefits and purposes of SEZs and industrial parks. This can be achieved by developing specific incentives and regulatory frameworks for SEZs that focus on export-oriented industrialization, while industrial parks might focus on domestic markets. Establishing clear strategic roles for each type of industrial zone will help in reducing redundancy and enhancing the economic impact of these zones.

4.9.8 Streamlining Policies and Institutional Roles

Simplifying the investment process is crucial. This could involve consolidating the roles of various institutions involved in investment approvals to eliminate overlapping responsibilities and contradictory policies. A centralized authority or framework could be established to handle all SEZ- related regulations and approvals, thus creating a more investor-friendly environment.

4.9.9 Implementing Functional One-Stop Service Centers

To truly make SEZs efficient, the concept of one-stop service centers needs to be fully implemented. These centers should be equipped to handle all investor needs, from registrations and approvals to providing information on tax regulations and facilitating necessary infrastructure services. Ensuring these centers operate effectively will significantly reduce bureaucratic hurdles and improve the ease of doing business.

4.9.10 Enhancing Transparency and Building Trust

Improving the relationship between the government and the private sector is essential. This can be achieved through regular consultations and transparent communication between both parties. Establishing clear compliance guidelines and ensuring that policies are consistently applied will also help in building trust. Additionally, regular audits and public disclosures of SEZ operations can improve transparency and encourage compliance from the private sector.

4.9.11 Focusing on Research and Development

To leverage Nepal's unique industrial strengths, there should be a concerted effort to boost research and development. This involves identifying potential competitive advantages through systematic research and aligning SEZ strategies with these findings. Partnerships with academic institutions and international experts could be beneficial in conducting this research. Understanding and promoting areas where Nepal has a competitive edge will help in attracting targeted investments and enhancing the global competitiveness of the SEZs.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

Special Economic Zones are pivotal in driving economic growth, particularly in developing nations. These zones offer unique regulatory and economic conditions designed to attract foreign investment, boost exports, and create employment opportunities. Nepal has recognized the potential of SEZs in its economic strategy, focusing on the development of the Bhairahawa and Simara SEZs. This thesis explores the evolution, current state, and challenges faced by these SEZs, aiming to provide insights into their effectiveness and potential for contributing to Nepal's economic progress.

The study sets out with three primary objectives. First, it aims to identify and analyze the key factors influencing the establishment and development of SEZs in Nepal. Second, it assesses the challenges and opportunities present in the implementation and operation of these zones. Finally, the study seeks to recommend measures for the effective implementation and operation of SEZs to maximize their economic benefits.

The research adopts a qualitative design, employing descriptive and analytical approaches. Data collection involved both primary and secondary sources. Primary data were gathered through field visits, survey questionnaires, and key informant interviews with entrepreneurs, SEZ officers, and local residents in Bhairahawa and Simara. Secondary data were sourced from books, journals, articles, and reports. Additionally, personal interviews with SEZ Authority officials in Kathmandu provided further insights. This comprehensive methodology ensures a robust understanding of the ' current status and challenges of the SEZs

The findings highlight that while SEZs have the potential to significantly contribute to Nepal's economic development, their full operationalization is hindered by several challenges. Key factors influencing SEZ development include policy and legal frameworks, infrastructure, market access, and investor confidence. The study identifies bureaucratic inefficiencies, high land rents, mandatory export ceilings, and a

lack of political commitment as major obstacles. Despite these challenges, there are notable opportunities due to Nepal's strategic location between India and China, the availability of a young and energetic workforce, and recent policy reforms aimed at attracting investment.

The thesis concludes that for SEZs in Nepal to be successful, concerted efforts are required to address the identified challenges through strategic reforms and enhanced coordination among stakeholders. Political commitment is essential, along with streamlined legal and institutional frameworks and improved infrastructure. Effective implementation of policies designed to attract and retain investment is crucial. By leveraging these opportunities and addressing the challenges, Nepal can enhance the effectiveness of its SEZs, thereby significantly boosting economic growth and industrial development.

5.2 Conclusion

Effective management of SEZs holds immense importance for Nepal, a country with sluggish economic growth. The Bhairahawa SEZ stands as the country's pilot project aimed at stimulating exports and generating employment. However, a focused study reveals persistent challenges hindering its development. Despite satisfactory completion of physical infrastructure, delays in formulating SEZ Act and Rules, insufficient political commitment, administrative hurdles, inadequate human resources, and poor infrastructure maintenance have impeded the BSEZ's progress. Issues such as mandatory export quotas, power supply deficiencies, high plot rents, unionization, and private sector disinterest further compound the challenges. Addressing these issues requires not only policy and act reforms but also effective implementation backed by thorough research, planning, and support. The success of SEZs hinges on their ability to deliver tangible benefits to both businesses and the economy at large. Mitigating inter-authority conflicts, fostering political commitment, and revising export policies to gradually increase exports while supporting the domestic market are essential steps forward. Additionally, revisiting land rent structures and exploring private sector involvement in SEZ development and operation could alleviate fiscal burdens and expedite progress. However, addressing critical foundational needs such as reliable electricity and water supply, alongside enhancing SEZ Authority's resources and capacity through comprehensive training,

remains imperative for timely and successful SEZ establishment and operation in Nepal. Failure to address these deficiencies promptly risks stalling Nepal's SEZ initiatives before they can truly take off and contribute to the country's economic growth.

The implications of the findings from a study on SEZs in Nepal can have profound effects on various stakeholders, including the government, the SEZ board (or Authority), and future researchers. Here's a breakdown of the potential implications for each:

Implications for Government

- The findings underscore the necessity for the government to refine and clarify policies related to SEZs. This includes creating transparent guidelines and straightforward procedures for establishing and operating SEZs. By doing so, the government can enhance the investment climate, making it more conducive for both domestic and international investors.
- The research highlights the bureaucratic challenges and policy overlaps that currently exist. For the government, this means there is a significant opportunity to streamline governance structures and reduce redundancy by consolidating roles and responsibilities, potentially under a single authoritative body for SEZ administration.
- Given the infrastructural deficits noted, there is a clear implication for the government to prioritize and expedite infrastructure development within and around SEZs. This includes essential utilities and connectivity enhancements that are critical for operational success and attractiveness of these zones.

Implications for SEZA

- The SEZ board is directly implicated in improving operational efficiency. This includes the establishment and effective management of one-stop service centers to facilitate all investor-related processes from a single point, thus reducing the administrative burden on businesses operating within SEZs.
- Investor Relations and Services: The findings suggest a need for the SEZ board to enhance its investor relations and provide robust services that meet

the needs of businesses, including clear communication channels, timely processing of requests, and proactive problem resolution.

- The SEZ board has the potential to leverage the findings to better market and promote SEZs. By highlighting the specific benefits, such as tax incentives, market access, and strategic location between major economies like India and China, the board can attract targeted investments.

Implications for Further Researchers

- Future researchers have a clear path to explore the gaps identified in the current study, particularly in areas related to the comparative advantages of different regions within Nepal for specific types of SEZs.
- There is an implication for conducting longitudinal studies to assess the long-term impacts of SEZs on Nepal's economy, which can provide deeper insights into the effectiveness of various policies and practices over time.
- Researchers are also implicated to explore the cross-sectoral impacts of SEZs, examining how advancements in one sector might influence others and contribute to overall economic resilience.
- Further studies could involve comparative analyses with SEZs in other countries, particularly those in similar economic environments, to get best practices and lessons that could be applicable to Nepal.

REFERENCES

- Aggarwal, A. (2010). Economic impacts of SEZs: Theoretical approaches and analysis of newly notified SEZs in India. *MRPA*, 2(1).
- Bhat, T. P. (2011). *Structural Changes in India's Foreign Trade: A Study Prepared as a Part of a Research Programme "Structural Changes, Industry, and Employment in the Indian Economy" : Macro-economic Implications of Emerging Pattern*. Institute for Studies in Industrial Development.
- Chaisse, J., & Ji, X. (2020). The Pervasive Problem of Special Economic Zones for International Economic Law: Tax, Investment, and Trade Issues. *World Trade Review*, 19(4), 567–588. <https://doi.org/10.1017/S1474745620000129>
- Chakraborty, T., Gundimeda, H., & Kathuria, V. (2017). Have the Special Economic Zones Succeeded in Attracting FDI?—Analysis for India. *Theoretical Economics Letters*, 7(3), Article 3. <https://doi.org/10.4236/tel.2017.73047>
- Chiukira, L. (2020). Special Economic Zones in Developing Countries: Challenges and Opportunities for Zimbabwe. *SSRN Electronic Journal*, 2, 1–13. <https://doi.org/10.2139/ssrn.3545662>
- Ghimire, C., Sharma Neupane, H., & Bhattarai, L. (2023). *Special Economic Zones in Nepal: Current Status, Problems and Effective Operational Measures*.
- Gyanwali, G. (2020). Special Economic Zones (SEZ): Challenges and Opportunities in Nepal. *Research Nepal Journal of Development Studies*, 3, 49–61. <https://doi.org/10.3126/rnjds.v3i2.34481>
- Kumar, B., & Gangal, V. (2009). *Special Economic Zones in India -A Critical Evaluation* (Vol. 2). SEZ India. <https://doi.org/10.13140/RG.2.2.35607.60324>
- Madani, D. (1999). A Review of the Role and Impact of Export Processing Zones. *World Bank Trading*, 2(1), 3–15. <https://doi.org/10.1596/1813-9450-2238>

- Singala, S., Atmavilas, Y., & Singh, E. (2011). Special Economic Zones in India: Policies, Performance and Problems. *ASCI Journal of Management*, 40(2), 21–59.
- Song, Y., Deng, R., Liu, R., & Peng, Q. (2020). Effects of Special Economic Zones on FDI in Emerging Economies: Does Institutional Quality Matter? *Sustainability*, 12(20), Article 20. <https://doi.org/10.3390/su12208409>
- Wang, J. (2013). The Economic Impact of Special Economic Zones: Evidence from Chinese Municipalities. *Journal of Development Economics*, 101, 133–147. <https://doi.org/10.1016/j.jdeveco.2012.10.009>
- Waqar, S., Badshah, I., Bandeali, M., & Ahmed, S. (2021). The Impact of SEZs on Economic Growth: Where the Absorption Capacity of Domestic Labor Stands? *ETIKONOMI*, 20, 259–274. <https://doi.org/10.15408/etk.v20i2.19386>
- Yeung, J. (2023, August 24). *What could have caused the plane crash that reportedly killed Wagner warlord Yevgeny Prigozhin?* CNN. <https://www.cnn.com/2023/08/24/europe/prigozhin-wagner-russia-plane-crash-explainer-intl-hnk/index.html>

APPENDIX 'A'**Sample Questions for Entrepreneurs**

Name:

Sex:

Name of the Industry:

Address:

1. Could you share your experiences while establishing industry in the SEZ?
2. What are the facilities that your industry has been utilizing?
3. Are the facilities provided as per the Provision of SEZ Act 2016?
4. What are the main challenges and problems you have been facing to run your industry smoothly?
5. Is there any facilities not provided yet that have to be provided as per SEZ Act?
6. How do you think that government can do more for the betterment of SEZs ?
7. Do you have anything to add?

APPENDIX 'B'**Sample Questions for the Official of Special Economic Zone**

Name:

Sex:

Name of the Industry:

Address:

1. Could you tell me present status of SEZs in Nepal?
2. What are the advantages / disadvantages of establishing a special economic zone?
3. What level of coordination is there among the SEZ authority, entrepreneurs, local governments and other stakeholders?
4. What do you think would be the reason behind showing less attraction on setting up industries inside SEZs?
5. How do you think that government can do more for the betterment of SEZs so that entrepreneurs get attracted towards it?
6. What is the status of quality of service, and waste management and environmental impact?
7. What are the issues that hindering the entrepreneurs to establish the industry in Bhairawa SEZ?
8. What are the challenges the authority faced during establishment phase of Bhairawa SEZ?
9. Do you have anything to add?

APPENDIX C**Interview Questionnaire For Local People**

1. Name:
2. Gender:
3. Address:
4. Age:
5. Occupation:
6. Can you provide information about the SEZ, considering variables such as the institutional framework, economic policies, and development level?
7. What do you see as the main advantages and disadvantages of having a special economic zone in your area, considering factors like infrastructure, market access, and government capacity?
8. How has the establishment of the SEZ affected the surrounding environment, considering variables such as development level and government capacity?
9. Have you noticed any changes in economic activity due to the SEZ, considering factors like market access and government capacity?
10. Has there been coordination between the SEZ and local offices, considering variables such as infrastructure and market access?
11. How has waste management and environmental impact affected local residents, considering the development level and government capacity?
12. What do you think the government could do to improve the SEZ, considering factors such as the institutional framework, economic policies, and development level?
13. Is there anything else you would like to share, considering variables such as market access and government capacity and others?

