

STUDY ON FOREIGN DIRECT INVESTMENT IN NEPAL

A Thesis Submitted to

**The Central Department of Economics, Faculty of Humanities and Social
Sciences, in Partial**

Fulfillment of the Requirements for the

Degree of Master of Arts in

Economics

Submitted By

Laxman Kharel

Roll No. 114/2070

Central Department of Economics

Tribhuvan University, Kirtipur

2017

Date: 12-09-2017

LETTER OF RECOMMENDATION

This Thesis entitled "**Study on Foreign Direct Investment in Nepal**" has been prepared by **Mr. Laxman Kharel** under my guidance and Supervision. I hereby recommend it for acceptance.

Mr. Babu Ram Karki

Thesis Supervisor

Date: 08 -11- 2017

APPROVAL LETTER

This thesis entitled "**Study on Foreign Direct Investment in Nepal**" prepared by **Mr. Laxman Kharel** in the partial fulfillment of the requirements for the Degree of Master of Arts in Economics has been accepted.

Thesis Committee

Prof. Dr. Ram Prasad Gaynwaly
Head of Department

Dr. Krishna Raj Acharya
Associate professor
External Examiner

Mr. Babu Ram Karki
Lecturer
Thesis Supervisor

ACKNOWLEDGEMENTS

This study has been under taken to analysis the “**Study on Foreign Direct Investment in Nepal**” under partial fulfillment of the requirement of MA degree. This thesis mainly covers the study to analyze the status of FDI in Nepal and its prospect.

I would like to express my infinite and sincere gratitude to my thesis supervisor and my respected teacher Babu Ram Karki lecturer of Central Department of Economics for his valuable suggestions in depth guidance, co-operation and continuous supervision without which this study would never have completed. I am highly indebted to him. Similarly I wish to express my gratitude to Prof. Dr. Ram Prasad Gyanwaly, Head of Central Department of Economics and all the teacher of Central Department of Economics for their gracious response to my queries.

TABLE OF CONTENTS

Recommendation Letter.....	i
Approval Sheet.....	ii
Acknowledgement.....	iii
Table of Contents.....	iv
List of Tables.....	vi
List of Figures.....	vi
List of Charts.....	vi
Acronyms and Abbreviation.....	vii
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem.....	5
1.3 Objective of the study.....	6
1.4 Significance of the study.....	6
1.5 Limitation of The study.....	6
1.6 Organization of the Study.....	7
CHAPTER TWO.....	7
REVIEW OF LITERATURE.....	8
2.1 Concept and Definition of FDI.....	8
2.2 Empirical Review.....	13
2.3 Policy Review.....	20
2.3.1 Foreign investment and Technology Act, 1981.....	21
2.3.2 OneWindow Committee and Industrial Promotion Board	21
2.3.3 Foreign Investment and Technology Transfer Act, 1992	22
2.3.4 Industrial Policy, 2011.....	23
2.3.5 FDI under Thirteenth Plan (F/Y 2013/14- 2015/16).....	24
2.3.6 FDI under Forteenth Plan (F/Y 2016/17- 2018/19).....	24
CHAPTER THREE.....	25
METHODOLOGY OF THE STUDY.....	25
3.1 Source of Data.....	25

3.2 Collection of the Secondary Data.....	25
3.3 Data Analysis.....	25
3.4 Time Period of the Study.....	25
3.5 Definition of Key Terms.....	25
CHAPTER FOUR.....	28
TREND AND STRUCTURE OF FOREIGN DIRECT INVESTMENT IN NEPAL.....	28
4.1 Trend of Foreign Direct Investment in Nepal.....	28
4.2 Year Wise flow of Foreign Direct Investment in Nepal.....	28
4.3 Category Wise Flow of Foreign Direct Investment.....	32
4.4 Number of Industries Approved for Foreign Investment by Scale Wise.....	35
4.5 Country Wise Flow of Foreign Direct Investment in Nepal.....	35
4.6 Nepal’s Position in Doing Business.....	37
4.7 Bilateral Investment Promotion and Protection Agreement (BIPPA).....	38
CHAPTER FIVE.....	39
PROSPECT OF FDI.....	39
5.1 Hydro- Power.....	39
5.2 Tourism.....	42
5.3 Agro and Forest-based Industries.....	45
5.4 Information Communication Technology.....	47
5.5 Transport.....	48
5.6 Mineral Exploration and Exploitation.....	51
CHAPTER SIX.....	54
SUMMARY, CONCLUSION RECOMMENDATION.....	54
6.1 Summary.....	54
6.2 Conclusion.....	56
6.3 Recommendation.....	58
Bibliography.....	60

LIST OF TABLES

4.1	Summary of Foreign Investment Project in Nepal.....	29
4.2	Number of Industries Approved for Foreign Investment by Category (up to F/Y 2015/ 16).....	33
4.3	Number of Industries Approved for Foreign Investment by Scale.....	35
4.4	Country Wise Foreign Investment.....	36
4.5	Nepal's Position in Doing Business among SAARC Nation.....	37
4.6	BIPPA Signed Countries.....	38
5.1	Energy Consumption Status (In TOE: Tons of Oil Equivalent).....	40
5.2	Electricity Demand, Consumption, Production and Import.....	41
5.3	Number of Tourist Arrival and Length of Stay.....	43
5.4	Total Number of Distributed Telephones.....	47
5.5	Status of Road Facility Expansion.....	49
5.6	Civil Aviation Related Indicators.....	50

LIST OF FIGURES

4.1	Number of Industry Approved.....	30
4.2	Year Wise Foreign Investment.....	31
4.3	Number of Employment.....	32

LIST OF CHARTS

4.1	Percentage Distribution of FDI by type of Industries up to FY 2015/16.....	34
5.1	Country with most Number of Tourist Arrival.....	44
5.2	Tourist Arrival by Purpose.....	44

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association for South East Asian Nations
BIPPA	Bilateral Investment Promotion Agreement
BITS	Bilateral Investment Treaties
BOI	Board of Investment
BPO	Business Process Outsourcing
CBS	Central Bureaus of statistics
CEDA	Centre for Economic Development and Administration
CEDECON	Central Department of Economics
DMG	Department of Mines and Geology
DOI	Department of Industry
EPZ E	Export Processing Zones
ESAP	Enhanced Structural Adjustment Program
FDI	Foreign Direct Investment
FI	Foreign Investment
FITTA	Foreign Investment and Technology Transfer Act
FNCCI	Federation of Nepalese Chamber of Commerce and Industry
FY	Fiscal Year
GATS	General Agreement on Trade-Related Service
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GON	Government of Nepal

ICT	Information Communication Technology
ICSID	International Centre for the Settlement of Investment Disputes
IEA	Industrial Enterprise Act
IMF	International Monetary Fund
Ktm	Kathmandu
LDCs	Least Developed Countries
M.A.	Master of Arts
MEDP	Mineral Exploration Development Project
MICE	Meeting International Conferences and Events
MIGA	Multilateral Investment Guarantee Agency
MNCs	Multinational Companies
MOF	Ministry of Finance
MOI	Ministry of Industry
MW	Mega Watt
NEA	Nepal Electricity Authority
NIDC	Nepal Industrial Development Corporation
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRN	Non- resident Nepali
OECD	Organization of Economic Co-operation and Development
PTA	Power Trade Agreement
Rs.	Rupees
SAARC	South Asian Association for Regional Co-operation
SAFTA	South Asian Free Trade Area
SAP	Structural Adjustment Program

T.U.	Tribhuvan University
TNC	Transnational Co-operations
TRIMS	Trade Related Investment Measures
TRIPS	Trade-Related intellectual property Rights
TOE	Tons of Oil Equivalent
UK	United Kingdom
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USA	United States of America
WTO	World Trade Organization
WB	World Bank
WWII	World War Second

