

FACTORS AFFECTING FDI INFLOW IN NEPAL

Submitted to:

Central Department of Public Administration

Tribhuvan University

Faculty of Management

Balkhu, Kathmandu, Nepal

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M.Phil. Roll No: 439/2020

TU Regd. No. 5-2-37-163-2012

In Partial fulfillment of Requirements for the Degree of Master's of Philosophy
(M.Phil.) in Public Administration

November, 2022

DECLARATION

I hereby declare that this study entitled “**FACTORS AFFECTING FDI INFLOW IN NEPAL**” is my own original work. The findings of this study have not been submitted anywhere for the award of any degree and the sources of information have been acknowledged for the authenticity of the research.

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FACTORS AFFECTING FDI INFLOW IN NEPAL

We found this thesis to be the original work of the students and written according to prescribed format. We recommended the thesis to be accepted as the partial fulfillment of the requirements of Master's of Philosophy (M.Phil.)

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ACKNOWLEDGEMENT

My sincere gratitude to all the respondents including officials, workers, managers, directors and consultants of different organizations named IBN, DOI, FNCCI, Pioneer Law Associates, Ministry of Finance, Nepal Rastra Bank, Department of Immigration, Ministry of Industry, Commerce and Supplies, SEZA, The World Bank and Economic Policy Incubates.

Special thanks go to Dr. Buddhiman Shrestha for his kind and fruitful supervision throughout the journey. I would also like to extend my heartfelt thanks to Prof. Dr. Shree Krishna Shrestha, Dr. MaharajKoirala, Prof. Dr. BijayLal Pradhan, Prof. YesodhaKumariKafle, Prof. Dr. Sushmita Acharya, Prof. Dr. Hari Bhakta Shahi, and Prof. Dr. Purushottam Sharma for precious guidance, feedback and support.

I am also thankful to my colleagues specially Mr. Amin Palikhe, Mrs. Rita Bhandari, Ms. AashmaAdhikari, Mr. Chet Kumar Shrestha, Mr. SahadevGautam, Mr. DamodarBhattarai and Mr. Dilip Raj Poudel for their valuable support throughout this journey.

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ABSTRACT

Nepal is least developed and landlocked country. It is located between two giant countries China and India. It lacks resources for economic growth and development. Without investment economic development is impossible within the country. To become a middle-income country and achieve sustainable development goals by 2030, Nepal needs financing gap of Rs. 585 billion per year to meet the SDGs. this resource gap can be bridged through FDI. In order to attract FDI, Constitution of Nepal 2072 encourage to mobilize foreign capital and technology investment for infrastructure in the area of export promotion, and import substitution and infrastructure development to suit national interest. Other Legal and institutional arrangement have been applied and policy reforms on FDI is continuously undertaking. However, Nepal is a poor performer/host of FDI and contribution of FDI in GDP is one of the lowest in the world.

This study aimed to analyze trend of FDI inflows from F/Y 2069/70 to F/Y 2078/79 and examine individual impact of geographical location and diplomatic mission on FDI inflows in Nepal. The hypothesis followed was Geographical Location and Diplomatic Mission affects significantly in FDI inflows in Nepal. Mixed research design was applied and collected both quantitative and qualitative data. The quantitative was presented and interpreted to examine the effects of geographical location and diplomatic mission on FDI inflow in Nepal. Whereas, the qualitative data obtained through interview from the experts, employees and foreign investors provided the clear issues, climate of FDI in Nepal. The secondary data obtained through reports and documents of IBN, DOI, FNCCI, NRB, MOF and other sources helped to analyze the trends of FDI in Nepal. Finally, to obtain concrete result analytical generalization technique was applied to merge the qualitative and quantitative data.

The regression analysis of trend data showed the insignificant inflow of FDI over 10 fiscal years. Similarly, the regression analysis with FDI inflows as dependent variable and geographical location as independent variables shows positive and significant relationship with each other. The result reported in the regression result are R

Square=0.360 and P is equal to 0.001. Therefore, the given hypothesis H₁ is accepted. i.e., FDI inflows is affected by geographical location.

Likewise, the regression analysis result also proved the hypothesis that FDI inflows is significantly affected by diplomatic mission. The result reported in the regression result are R Square=0.271 and P is equal to 0.001.

From the qualitative perspective, Majority of the respondents viewed that lack of adequate infrastructure, increased cost of doing business, production of goods and services, increased transaction cost and time, narrow domestic markets, safety issues and bureaucratic long and complicated legal hassles as a supplementary has broadly demotivated the intention of foreign investors to invest into the country.

Most of the respondents viewed that we lack good business environment. The present diplomatic mission on economic development is not sufficient to attract stipulated amount of FDI inflows in Nepal. We are far behind the diplomatic proficiency in order to lobby for trade liberalization, technology transfer, market access, investment promotion, dissemination of potential areas of investments, capacity development of existing human labor and facilitate on investment decisions to foreign investors.

The view of the key respondents coincides with quantitative data regarding impact of geographical location and diplomatic mission on FDI inflows in Nepal.

Keywords: *Foreign Direct Investment, Geographical Location and Diplomatic mission, Nepal*

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ABBREVIATION

M.Phil.	-	Master of Philosophy
GoN	-	Government of Nepal
FDI	-	Foreign Direct Investment
TNC	-	Transnational Companies
I.E.	-	That Is
OSSC	-	One Stop Service Centre
DG	-	Director General
GL	-	Geographical Location
DM	-	Diplomatic Mission
GVC	-	Global Value Chain
EU	-	European Union
NRB	-	Nepal Rastra Bank
\$	-	Dollar
%	-	Percent
A & G	-	Agriculture and Forestry
M & A	-	Merger and Acquisition
MoU	-	Memorandum of Understanding
PRI	-	Policy Research Institute
GDP	-	Gross Domestic Product
NEF	-	Nepal Economic Forum
FY	-	Fiscal Year
BITs	-	Bilateral Investment Agreements
EMEs	-	Emerging Market Economics
SEZ	-	Special Economic Zones

IBN	-	Investment Board of Nepal
LLDC	-	Landlocked Developing Country
MIS	-	Management Information Center
Ltd	-	Limited
PDR	-	People's Democratic Republic
NRS	-	Nepalese Rupees
VAT	-	Value Added Tax
PDTA	-	Patent, Design and Trademark Act
OECD	-	Organization for Economic Co-operation and Development
GMT	-	Greenwich Mean Time
KM	-	Kilometer
CIT	-	Competitive Corporate Income Tax
PPP	-	Public Private Partnership
PDA	-	Project Development Agreement
PIA	-	Project Investment Agreement
SDGs	-	Sustainable Development Goals
US	-	United State of the Kingdom
EU	-	European Union
MW	-	Mega Watt
FERA	-	Foreign Exchange Regulation Act
PAN	-	Permanent Account Number
DOI	-	Department of Industry
R&D	-	Research and Development
VS	-	Versus
SD	-	Strongly Disagree
D	-	Disagree

A	-	Agree
SA	-	Strongly Agree
SAARC	-	South Asian Association for Regional Cooperation
BIMSTEC	-	The Bay of Bengal Initiative for Multi-Sectorial Technical & Economic Cooperation
Prof.	-	Professor
Dr.	-	Doctor
B.S.	-	BikramSambat
BRI	-	Belt and Road Initiative
WB	-	World Bank
A.D.	-	Anno Domini
et.al	-	And and Others
I	-	First
II	-	Second
III	-	Third
IV	-	Fourth
V	-	Fifth

CHAPTER I

INTRODUCTION

1.1 Background of the Study

According to (Ghahroudi et. al., 2018), “Foreign direct investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets in another country (the host country) for the purpose of controlling the production, distribution and other activities of a firm in that country. It is an investment made by a company or individual who has an entity in one country, in the form of controlling ownership in business interests in another country. The distinguishing feature of FDI, in comparison with other forms of international investment, is the element of control over management policy and decisions”.

FDI has increasingly been viewed by policy makers in developing and emerging market economics (EMEs) as a tool to finance development, increase productivity and import new technologies (Arbatli, 2013). Economists believe that FDI is an important element of economic development in all countries, especially in the developing ones (Denisia, 2010). It is an engine of economic growth. It is significantly associated with economic growth. The financial facilities faster economic growth through pooling of funds, encouraging and mobilizing overseas investment (Parajuli, 2021).

Foreign direct investment affects economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries (Falki, 2009). It promotes growth through the generation of productivity spillovers. Furthermore, foreign investors tend to be more productive than the local firms (Kharel and Kharel, 2019). Besides, it helps to maintain cordial relationship between developing countries and other countries in the world (Pokharel&Pokharel, 2019).

The research report of PRI shows that economy of country even today is excessively dependent upon traditional agricultural system and remittance. Though there is high potentiality of development of industries, the available resource, means and potentialities could not have been exploited because of lack of appropriate management capacity and this has resulted in non-use of available resources and raw

materials and the country has facing various problems such as extreme unemployment and semi-unemployment due to which the workforce available in the country are compelled to go foreign countries and work at minimal wages (Pant & Acharya, 2022).

An increasing number of governments want to attract FDI rise because the characteristics associated with FDI increasingly fit the government's development objectives (growth, poverty reduction, etc.). Foreign Direct investment in Nepal is the partnership for economic transformation. Economic growth is the increment of Gross Development Product of the country (Bajracharya, 2014). Nepal is an emerging economy for foreign investors. It has abundant labor and high accessibility of natural resources. FDI is inevitable for Nepal to reduce saving to investment gap, foster economic growth and revenue (Adhikari, 2013).

Many literatures support those specific locations especially strong economic indicators like larger market size, stable macro-economic environment, political support etc. affect investment in the host country by the multinational corporations (MNCs). However, economic fundamentals may not be sufficient for FDI inflows. The growing integration of the world markets and increased competition amongst the host countries to attract FDI, it now becomes necessary to study in detail about the factors affecting FDI inflows in Nepal. This study therefore, seeks to analyze the trend of FDI inflow over 10 fiscal years from 2069/70 to 2078/2079 and to examine the impact of Geographical Location and Diplomatic mission on FDI Inflow in Nepal.

1.2 Statement of Problems

Nepal is a low-income land-locked country in South Asia. However, the new report of Nepal Multidimensional Poverty Index: Analysis towards Action shows Nepal succeeded to lift 3.1million people out of multidimensional poverty in five years (between 2014 and 2019). It shows the remarkable reduction in multidimensional poverty but still 4.9 million (17.4%) people are multidimensional poor (UNDP, 2021). The GDP in Nepal was worth \$ 36.29 billion in 2021 as per the official data from the World Bank. From 2050 to till Jestha of 2079 Nepal received annual average of Nrs. 1542.14 million FDI. The trend analysis of GDP shows that the contribution of FDI on GDP is rising every year than previous year. However, it represents only 0.03 % of the world economy (Trade Economics, 2022).

To become a middle-income country and achieve sustainable development goals by 2030, Nepal needs financing gap of Rs. 585 billion per year. This resource gap is going to be a major problem for the country in achieving the twin goals. In spite of opportunities for investment in Nepal, public investment is low and the country has been unable to attract potential private investors. One of the sources of bridging financing gap is FDI. The economic growth of Nepal is directly related to the inflow of FDI. However, Nepal is a poor performer/host of FDI and contribution of FDI on GDP is one of the lowest in the world. The World Bank projected that Nepal's GDP would increase by 5.1 percent in 2023 and by 4.1 percent in 2024. However, the government has set a target to achieve 8 percent of economic growth rate in the fiscal year 2022/23. Similarly, the gap between FDI commitment and actual inflows is found to be Rs.12,660.1 million in fiscal year 2077/78 and these gaps were continuously existed in the past years also.

Economic growth of any country relies upon the extraction and mobilization of available scarce resources. Nepal is rich in natural resources like water, forest, minerals and so on. The highest peak of the world "Sagarmatha" is also lies in Nepal. It is also rich in culture and history. Although FDI is generally welcome in all sectors in Nepal, the living standard of people of is not improved yet and many populations are compelled to go and settle abroad in search of better opportunities. A report shows that more than 200,000 Nepalese citizens have gone abroad in search of jobs in the first seven months of the current fiscal year. This increasing number of citizens going abroad and residing permanently which is not good for our country and the main reasons is associated with poverty and lack of capital. To create employment opportunity, raise, and living standard of citizens and to alleviate any kind of poverty with the mobilization of internal investment is out of imagination.

In the present context, country is majorly facing the problem of decreasing foreign currency stock, trade deficit, inflation, huge resource gap for investment, unemployment, and brain and rampant corruption. The economy of Nepal is characterized as landlocked location, rugged topography and infertile land, lack of excess to markets, poor infrastructure infrastructures and technology, excessive production and manufacturing cost, skilled labor crisis. Further, the diplomatic mission of Nepal for government-to-government relation, trade negotiation, foreign investment facilitation, identification and promotion of potential areas investment,

implementation of treaties, conventions and agreements and commitment of incentives embodied in the policies is not satisfactory.

Frequent transfer of officials of concerned offices, cumbersome administrative and legal processes, lack of political support and commitment and many others factors have demotivated FDI inflows in Nepal in spite of legal, institutional and regular policy reforms in the field of FDI resulting in poorest level of climate of investment in Nepal. Thus, it has been urgent to study in depth about trend and factors especially geographical location and diplomatic mission affecting FDI inflows in Nepal.

1.3 Research Questions

This study was carried out to seek answer to the following questions:

- 1.3.1 What is the trend of FDI inflows in Nepal?
- 1.3.2 To what extent the geographical location has affects FDI inflows in Nepal?
- 1.3.3 To what extent the diplomatic mission of Nepal has affected FDI inflows in Nepal?

1.4 Research Objectives

The study aimed to analyze the inflow of FDI and factors affecting it in Nepal and more specifically it set out the objectives as follows:

-) To analyze the trend of FDI inflows in Nepal.
-) To examine the effect of geographical location on FDI inflows in Nepal.
-) To assess the impact of diplomatic mission on inward flows of FDI in Nepal.

1.5 Hypothesis

According to Anupama, K. (2018), ‘‘A hypothesis is a statement of the researcher’s expectation or prediction about relationship among variables. It is an educational guess or prediction based on observations. It ensures the entire research process remains scientific and reliable. There are two types of hypotheses. One is null hypothesis and another is alternative hypothesis. Null hypothesis determines that there is no significant relationship between dependent variables and relationship is occurring just because of chance’’. This study assumed that there is significant relationship between the variables and tried to prove that there is relationship between

geographical location and FDI inflow and geographical location and diplomatic mission. Present study consists of following alternative hypotheses.

H₁: Geographical location significantly affects FDI inflows in Nepal.

H₂: FDI inflows in Nepal is significantly affected by diplomatic mission

1.6 Rationale of the Study

Research and trends show country is not successful in attracting FDI. For this, many factors are responsible. There is varied interest and choices of investors. FDI from developed and developing countries may seek to achieve different objectives and therefore may be attracted to different set of opportunities and policies of the host governments. (Dunning, 2002) suggested that traditional economic variables are more important to attract FDI from large developing countries but as per (Banga, 2003), ‘‘FDI from more advanced industrialized countries is increasingly seeking complementary knowledge, intensive resources and capabilities, a supportive and transparent commercial, legal communications infrastructure, and government policies favorable to globalization, innovation and entrepreneurship’’.

Most of the studies in Nepal are concentrated on analyzing climate of FDI, trends of FDI inflows and its contribution on GDP formation based on secondary data. However, there is no any study related to factors affecting FDI inflows in Nepal till date. Some study shows that there are higher chances of FDI in the context of developing countries like Nepal but the share of FDI inflows is very low compared to neighboring countries and SAARC countries. So, it is imperative to identify the potential factors affecting FDI inflows in Nepal. In this regard, this study aims to examine the effect of geographical location and diplomatic mission on FDI inflows in Nepal besides analyzing trends of flows of FDI within the country. Similarly, this study incorporates the in-depth views of the experts and specialists, government agencies and contract agencies about FDI in Nepal.

1.7 Significance of the Study

There are many potential areas of foreign investment in Nepal although it is land-locked between two giant countries China and India. But the inflows of FDI and its contribution on GDP is not satisfying. To create conducive climate for investment, it

has been imperative to find the key bottlenecks in FDI and address them as soon as possible only through effective research, implementation and diplomatic mission.

This study assists to policy makers, politicians, technocrats, experts, bureaucrats and scholars to improvise the existing FDI policies by analyzing flows of FDI and examining the effect of geographical location and diplomatic mission on FDI inflows in Nepal and to make investors' decision-making processes more objective and value adding as Nepal is an emerging economy for foreign investors. The significance of the study is highlighted as follows:

-) It presents the trend of flows of FDI.
-) It predicts the inflow of FDI in the next fiscal year.
-) It clarifies the situation of approved FDI and actual FDI.
-) It provides extents of relationship of geographical location and diplomatic mission with FDI inflow.

1.8 Scope of the Study

This study aims to identify the factors affecting FDI Inflows in Nepal as it is opened in all sectors except few restrictions. It also tries to incorporate the in-depth views of government agencies, experts, foreign investors and contractor agencies regarding the climate of FDI and key issues and challenges related to it and ways to promote FDI inflows in Nepal.

The demand of FDI in the country is increasing day after day in developing countries like Nepal because it not only fulfills the investors motives of profit earning through production activities but also contributes to the host country to utilize available and unexplored resources, create job opportunities, apply new technology, skills, innovative capacity, organizational and managerial practices and provide access to international network and markets.

1.9 Limitation of the Study

FDI is a vague topic it consists of various areas or fields or sectors. It can be studied from different perspectives and dimensions. This study is only focusing on analyzing the patterns of FDI and examining the effect of geographical location and diplomatic mission on FDI inflows in Nepal. Highly sophisticated research capable of evaluating

factors and impact associated with FDI are not possible in single study. Due to time as this study had to be conducted within 6 month and resource constraints, this study is confined to the following limitations.

-) The one major limitation of this study was the selection of limited independent variables i.e., only geographical location and diplomatic mission. However, several other economic and non-economic variables affect the attraction of FDI inflows within a country.
-) Another limitation is the availability of limited number of respondents in the survey and interview because of time and resource constraints.
-) It could not investigate in depth about the impact of FDI policies on FDI inflows in different sectors individually.
-) It does not study in details about the impact of FDI inflow in economic growth in Nepal.
-) The study is not totally value free in nature. It has accepted the varied perceptions of the respondents.

1.10 Organization of the Study

This study is organized into five Chapters.

The first chapter is the introduction on the topic under study. These consists of: background of study, statement of problem, research questions, research objectives, hypothesis, rational of the study, significance of the study, scope of the study and limitation of the Study.

The Second chapter is about the review of the literature. These includes: geographical location of Nepal, concept of FDI and its type (Greenfield FDI, M &A Joint Ventures, Horizontal, Vertical Conglomerate FDI, Expansionary and defensive FDI, Import substituting, Export Increasing and Government Initiated FDI) , The reason for investment in Nepal, The potential sectors of identified by DOI for foreign investment in Nepal, The restricted area of Foreign investment in Nepal, Theories of FDI (Production Theory of FDI, Internationalization Theory, The Eclectic Paradigms of Dunning, Institutional FDI Fitness Theory, Microeconomic Theory and macroeconomic theory), Legal and Organizational Arrangements, Review of Book, Research Thesis, Research Articles, Reports and News Articles in the National and

International Context, Theoretical Framework, Conceptual Framework and Research Gap.

The Third chapter deals with the research methodological parts which comprise of epistemology, ontology, axiology, methodology, research design, sampling design, ethical consideration, reliability and validity, data collection and data analysis.

The data analysis and presentation discussion and major findings are presented in the Fourth chapter.

The last chapter Fifth is concerned about the summary, conclusion and recommendation. The references and the appendixes are included at the end of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Geographical location

Nepal is a landlocked and least developed country located between two giant countries China in the North and India in the South, East and West, both of which have emerging economy in the world. Geo-politically, Nepal is in a ‘Razor’s Edge’ situation and it has always been politically and economically influenced by the globally emerging powers, India and China and the developed western nations. The federal country Nepal has seven provinces and total area of is 1,47, 516 sq. km. The total population of Nepal has reached to 29.2 million. The east to west distance of Nepal is about 800 km, and the overall north to south distance is about 150-250 km. Geographically, it is divided into three regions; Himalayan Region, Mid Hill Region and Terai Region. The mountain region consists of alpine and sub-alpine climate whereas hilly region has moderate climate. The terai region possess tropical and sub-tropical climate. The highest peak Mt. Everest of height 8848.86 km is located in Nepal and the lowest point is KechanaKalan of Jhapa which is about 60 m.

Nepal is fully dependent on India for trading of goods and services with the third countries. Meanwhile, the use seaport from another giant neighbor, China is not feasible for Nepal. Lack of adequate infrastructure development is another big problem of the country due to its tough geographical terrain. It is not only the problem of Nepal but also the problem of all landlocked countries in the world. It demands lots of hard and cumbersome border-crossing procedures and adequate transit transport infrastructure. It has increased cost of trade and transport. The high transport cost has hampered in the competitive capacity of all LLDCs and has discouraged investors. Besides, in many cases, LLDC’s transit neighbor are themselves developing countries and often facing numerous similar economic challenges. There are no other alternatives for Nepal rather than to be dependent on with India for world’s market access. A report of United Nation depicts that the remoteness from major world markets is the principal reason for less success in reducing the negative impact of geographical location in most of the LLDCs. The development of LLDCs would have increased by 20 % if they were not landlocked country (United Nation, 2018).

Geography is important however it is not everything. It plays crucial role for the economic development of any country and its importance on economic growth cannot be neglected (Gallup et. al., 1999). They further highlighted that tropical region are less developed compared to temperate region, probably because of higher disease burdens and limitations on agricultural productivity. Additionally, regions linked by waterways have favorable environment for economic development as they have access to the sea while landlocked countries lack of direct access to sea even though they are near from the coastal economies because of following reasons: cross-border flow of labor is cumbersome in relation to the internal flow, increased cost of infrastructure development, high population density may not favor with low rate of return on investment in land locked country lacking access to internal, regional and international trade. To add up more, transport costs affect the relative price of capital goods as most of the developing countries are dependent on other countries for some to many investment goods and the scope of the market in turn is limited by transport costs.

Almost all landlocked countries in the globe are poor except some countries in the Europe due to market access and low cost of trading. Landlocked developed countries of Europe are surrounded by major developed markets and constitutes a relatively smaller part of their external seaborne trade. They export mainly high value-added products and their seaport distance is comparatively short.

Investment security is must for FDI. For smooth inflow of capital, investments and profits, movements of foreign investors, a firm political commitment is necessary to enact and enforce without any administrative hurdles and unruly behavior. The collegial relations between the labor and the management are also required for investment security (Pant et. al., 2022). The report of (UNCTAD, 2003) has highlighted the following factors unique to landlocked countries that can pose threats to FDI. They are: “lack of national access to seaports, high transport costs for both import and export including insurance services, excessive dependency on their immediate neighbors, Lack of infrastructure facilities especially in poor countries with inadequate road and rail infrastructures, Some LLDCs are small, with a narrow resource base and a small domestic market, high transport costs frustrate trade linkages and inhibit the attractiveness of LLDCs for FDI and other political and

economic difficulties. However, it is not clear that being landlocked is itself sufficient condition for deterring FDI. Some of the world's high performers in terms of attracting FDI are landlocked. For example, Switzerland has developed location advantages for the production of high-value but low-weight products, such as watches and precision instruments''.

The economies of Nepal are characterized by large number of informal sectors, increasing number of unemployment, low productivity and narrow domestic market. Most of the people lives in villages and are dependent on agriculture. However, the agriculture productivity is very low. Nepal is considered as one of the least developed countries in the world. The economic development is hampered by inadequate transport network, infrastructure and lack of resources. The country's economy is excessively relied upon imports of basic materials and essential commodities like consumer goods, fuel, fertilizers, etc. and exports products like jute, timber, textiles, etc. the minerals resources like copper, cobalt, iron ore, magnesites, pyrite, sulfuric acids etc. have not been properly explored. The tremendous river and rivulets are not adequately utilized for production and distribution of energy power. Most of the industries are small and production represents small but growing segment of economic activity. In general, private industrial enterprises are more than public enterprises. The main areas of manufacturing are concentrated in Biratnagar, the Birgunj to Hetauda corridor and the Kathmandu valley. There are lots of opportunities in tourism and represents small but expanding industry. However, it is concentrated mainly in the Kathmandu valley. Because of geographical and historical reasons, Nepal is heavily dependent on trade with India. China and USA are also the significant trade partner for Nepal. Attempts have been made to expand trade through agreements with some countries like China, Japan, South Korea, USA, Germany, Pakistan, and Poland. However, import is much higher than export leading to high trade deficit. The dependency on India for markets and access to the sea ports and frequent border disputes have caused periodic friction between the two countries.

All the countries in the world have given continuous emphasis for rapid economic growth has a result they are inviting and allowing more and more foreign investors to invest in their land. FDI can accelerate growth by creating employment opportunities, fulfilling saving gap and huge investment demand and transferring knowledge and

management skills through forward and backward linkages in the host country (Frenkel et. al., 2004).

2.2 Diplomatic Mission/Diplomacy

Diplomatic concerns about government-to-government relationship of different countries. It is the conduct of international relationship through negotiations or dialogue or any other means to promote and maintain peaceful relation among and between states for different purposes. It is related to the production, movement or exchange of goods, services, labor and investments in other countries. The term diplomatic mission has been borrowed from 'diploma' meaning a folded document. It indicates to a set of rules, institutional practices and discourses executed by those officials who have the right to use the folded document issued by the government, international organizations or agencies as an identity in different affairs (Gautam, 2004).

Diplomacy as defined by (Hussain, 2006) said that it is an ability to affect the outcomes you want and if necessary, change the behavior of others to make it happen. It works to achieve objectives like territorial, economic, religious etc. set by the state. It influences the decision making of not only others but also influences policy making at home. It is believed that if economic and diplomatic relations are good, partner countries get more benefits form diplomacy.

Nowadays the world has been integrated into one village due to globalization. Countries in the world are interconnected by trade, culture and connectivity. After post restoration period, Nepal has adopted open and liberalized FDI policies and continuously making efforts to create investment-friendly climate to ensure attractive investment inflows in Nepal. It is concerned with formulating, implementation, appraising and advising of FDI policies. The area of diplomatic mission comprises of political and economic negotiation and consensus in the areas of FDI by different actors in different forms ranging from bilateral to multilateral conventions. It is a tool by which the objective of FDI policies is accomplished. Both Effective economic and non-economic diplomatic mission is required to attract committed FDI inflows in the country. Economic diplomacy comprises of trade treaties and agreement, FDI agreements, foreign loans and grants. To date Nepal has maintained diplomatic relation with 178 countries, including the European Union. In order to establish and

maintain good diplomatic mission, Nepal's foreign policy envisage to enhance the dignity of the nation by safeguarding sovereignty, territorial integrity, independence, and promoting the economic well-being, global peace, harmony and security, and prosperity of the country (Ministry of Finance, 2023).

Nepal had already practiced active trade policy during the 18th and 19th centuries. However, in a more than hundred years of long time period of Rana Regime, the focus is given only for self-vested political interest and least focused on establishing and developing the practices and mechanism for diplomatic mission for international economic relationship. The India centric approach also failed to bring positive impact on economic development of Nepal. After the restoration of democracy in 1990s, the dimension of diplomatic mission and multilateral relationship has been changing time and again. Government of Nepal has continuously been adopting the strategy of economic diplomacy as a major foreign policy. In post-restoration period Nepal opened up liberalization, privatization and free market economic policy. Along with the inception of these policies, GoN also set priority on infrastructure, power, water, telecommunication, roads, and tourism and agriculture sectors.

For investment promotion, Nepal's priority has shifted to economic development with the promulgation of new constitution, 2015 to occupy the huge gap of resources to implement transformational projects (IBN, 2021). Different organizational arrangements ideas and strategies are applied for effective diplomatic mission for greater FDI inflows in Nepal.

Diplomatic Mission is either government to government or private dealings or both for creating better environment for attraction of FDI inflows within the country. Earlier, the diplomatic mission of Nepal with neighboring and the west nations were ascertained with the vested political interest. After the end of cold between the USA and the USSR, it has shifted towards economic, commercial and cooperation interest by means of bilateral and multilateral ties which gained subsequent momentum after introduction of globalization, privatization and liberalization and free market policies in the decades of 80s and early 90s. The establishment of Economic Relations and Coordination Division (ERCD) and International Business Forum in the Ministry of Foreign Affairs, International Desk Offices at the line ministries such as Finance, Industry, Trade, Tourism, Water Resource and Labor, Foreign Investment and

Technology Transfer Section in DOI, IBN etc. were major steps in Nepal to introduce economic diplomacy.

2.3 Concept of FDI

According to (KC, 2011),"the first introduction of FDI to the global economy was perceived in the thesis of Steven Hymer in 1960. In the early days, FDI faced the problem of local competitors who had a better knowledge of the local economy. After the end of World War-II, FDI vigorously penetrated the global economy. However, the growth of FDI was modest until mid-1990's but accelerated in the mid- 1990's. The development of modernization, globalization of business with the advancement of technology skilled and cheap labor costs with low risk factors contributed to the spread of application of FDI all over the world.

FDI is the long-term participation management, joint-venture, transfer of technology and expertise by country A into country B (Agrawal & Khan, 2011). It is net inflows of investment in an economy of a country. It is the sum of equity capital, reinvestment of earning, long-term and short-term capital (Abbas et. al, 2011).

(IMF, 1993) defined FDI as "International investment that reflects the objective of a resident entity in one economy (foreign direct investor or parent enterprise) obtaining a lasting interest and control in an enterprise resident in an economy other than that of the foreign direct investor. He further elaborated the three basic components of FDI flows are as follows: Equity Capital which constitutes the value of the MNC's investment in shares of an enterprise in a foreign country. An equity capital stake of 10 percent or more is normally considered as a threshold for the control of assets. Reinvested earnings consist of the sum of direct investor's share of earnings not distributed as dividends by subsidiaries or associates, and earnings of branches not remitted to the direct investor. The direct investment capital or intercompany debt transactions cover the borrowing and lending of funds including debt securities and supplier's credits between direct investors and subsidiaries, branches and associates. FDI flow with a negative sign indicate that at least one of three components of FDI is negative and is not offset by positive amounts of the other components".

Foreign direct investors can invest in Nepal either in the form of equity investment, or loan investment or reinvestment form the profits obtained from the above two forms.

They can invest in an industry only after obtaining approval from either Department of Industry or the Investment Board Nepal based on the nature of capital investment.

Nepal has enacted Foreign Investment Policy, 2015 and the FITTA, 2019 to attract and manage FDI which replaced the previous FITTA, 1992 and has broadened the scope of FDI by including different provisions like share investment in foreign currencies, investment through venture capital or secondary securities market or through the banking channel after issuing securities in a foreign capital market by the industry or company incorporated in Nepal and re-investment of dividends derived through foreign currency or shares and facilitated lease finance.

FDI promotes growth through transfer of advanced manufacturing technologies, management know-how to run the facilities from developed countries to the least developed countries, market competition in the host country, improving balance of payment position by increasing exports and providing training and employment opportunities for the people of host country. In this globalized world FDI provides access to the world market (Agrawal & Khan, 2011).

When a firm invests abroad, it aims to pursue a set of different aims. The motivation is subject to changes with the passing of time and is affected by the structure of the firm and characteristics of the host country where the firm intent to invest. The main motives behind why individual and firm engage in FDI as categorized by (Dunning, 1993) and (Dunning & Lundan, 2008) as cited by (Franco et. al., 2008) are: Resource reeking, Market seeking, Efficiency seeking and Strategic assets seeking. Either lack of specific resource or existence of resources (natural resources or raw materials) at higher cost in the home country motivate natural resource seekers to invest in the host country. The resource can range from oil and gas to unskilled and semi -skilled labor and also technological and managerial capabilities. Markers seekers invest abroad to supply goods and service to new markets or to the one they previously served through exports and to exploit the possibilities granted by markets of greater dimensions and get profit from foreign markets. In the present days it is also becoming important to have a physical presence on the market to discourage potential competitors from occupying that market. Efficiency seekers firstly intent to take advantage of differences in the availability and costs of traditional factors endowments in different countries and secondly to take advantage of the economies of scale and scope and differences in consumer tastes and supply capabilities. Strategic assets seekers intent

to acquire and complement a new technological base that contribute to long-term competitiveness rather than exploiting the existing assets through investment.

2.3.1 Types of FDI

The types of FDI are based on perspective of studies and other specific purpose. The main types of FDI are: 1) Greenfield Investment, 2) Mergers and Acquisition & 3) Joint Ventures. Similarly, FDI can be classified from the perspective of both investor and host country. From the perspective of investor, FDI is classified as 1) Horizontal FDI, 2) Vertical FDI and 3) Conglomerate FDI. Horizontal FDI is undertaken for the purpose of horizontal expansion of similar kinds of goods in the host country as in the home country and exploit certain monopolistic and oligopolistic advantages like patents or differentiated products. Vertical FDI is undertaken to exploit the raw materials (backward vertical FDI) or to be nearer to the consumers through the acquisition of distribution outlets (forward vertical FDI). The conglomerate FDI involves both Horizontal and Vertical FDI. From the perspective of Host country, FDI is classified as import substituting FDI, Export increasing FDI and Government initiated FDI to eliminate a balance of payment deficit, etc. (Caves, 1971).

Furthermore, FDI is classified as expansionary and defensive types. The expansionary FDI seeks to exploit firm-specific advantages in the host country such as scale, R&D intensity, profitability and motives for technology acquisition, i.e., Contribution to sales growth of the investing firm at home and abroad. While the defensive types of FDI seeks cheap labor in the host country with the objectives of reducing the cost of production and the nexus of production network (Chen & Ku, 2000).

(Zeqiri&Bajrami, 2016) defined Greenfield FDI as investment made by foreign investors to expand business or to establish new production house in the foreign countries. This investment is the primary target of the host nation because this type of investment creates new production capacity, job opportunity, transfer of technology and know-how, and can lead to linkage to global market. However, this type of FDI does not always lead to flow back of profit into the domestic market. They also put forwarded that Kosovo welcomed this type of FDI or similar sub-type to reduce the unemployment problem.

In merger and acquisition (M&A) type of FDI a new legal entity is formed through merging firms from different countries. M&A provides no long-term benefits to the

local economy as compared to Greenfield investment or provides little gain to countries with lower level of development because in most deals the owners of the local firms are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy. The most emphasized benefit from this type of FDI is increased productivity of the workforce, but not much can be proved in terms of increased employment (Zeqiri&Bajrami, 2016).

Joint venture consists of involvement and operation of local company, government and foreign company in the host country. According to (Casson, 2000),"the factors for formation of joint ventures are economies of scale, market size, economies of scope, technological uncertainty, technological change, cultural difference, interest rates, protection of autonomy and missing patent rights". In cross border joint venture economic entities from at least two countries are involved. One of the main factors influencing the viability and success of cross-border joint ventures concerns the choice of partner and reciprocal trust between partners (Dunning &Lundan, 2008).

2.3.2Theories of FDI

Denisia opined that there are different theories of FDI. There is no generally accepted theory of FDI. There is no single superior theory which comprehensively explains FDI. The different theories of FDI are explained below: a) The Production Theories of FDI was propounded by Vernon in 1966 to explain the investment made by the U.S. companies in the manufacturing industries in the Western Europe after the World War-II. At that time, there was an increasing demand of manufacturing products in Europe like those produced in the U.S. This theory highlighted the four stages of production cycle: innovation, growth, maturity and decline. In the beginning the U.S. companies developed new and innovative products and technologies for local consumption and exported the surplus to the foreign markets and standardized their products. In the growth Phase, the demand of the product increased and their products became more standardized as well as the local market reached to saturation level. So, the local firms expanded their operation abroad in different locations where the cost of production is comparatively low and the competition is enhanced (Musabeh, 2018). In the stage of maturity, the number of expansions of foreign firms increased especially in countries that created value-add for its products which threatened the firm's export position and the firm was induced to produce goods in the host county through its foreign subsidiaries (Denisia, 2010).

Buckley & Casson developed another theory called 'The Internalization Theory' on the basis of seminal work of Coase in 1976. They attempted to answer the question why production is carried out by the same firm in different locations. The key assumption of this theory was that established multinational enterprises are motivated to reduce transaction costs related to failure in the market for intermediate products so that firms can raise profitability. Further, they classified different types of market failure that result in internalization. For example; the government interventions in the market create an incentive for transfer pricing as well as the inability to estimate the price correctly. They also opined that internalization takes place as a result of the market failure in intermediate input markets which lead to horizontally integrated MNEs (Musabeh, 2018).

He also put forward that this theory was also applied by Dunning in his eclectic theory but he argues that it tries to explain only part of FDI flows. Moreover, due to market failure in the intermediate output markets lead to vertically integrated MNEs. Later, Professor Dunning propounded a theory called The Eclectic Paradigm of Dunning/ International Production Theory. He mixed three theories (O-L-I) of FDI. 'O' consists of Ownership advantages; 'L' consists of Location advantage and 'I' mean Internalization advantage. Firstly, the ownership advantages consist of property rights of particular technology, firm size, monopoly power and access to raw material or cheap finance. The firm must exploit these advantages internally instead of contracting, selling or listing them to other firms. Secondly, the location advantages consist of various qualitative and quantitative factors such as availability of resource, lower cost of transportation, infrastructure, market size, government facilities, etc. Thirdly, the internalization advantage explains how market transaction can be done effectively without any other additional costs. Internalization advantages help firms to minimize the expense of broken contracts, control supplies and conditions of sale for inputs including technology and reduce the effect of government intention (quotas, tariffs, price controls, tax differences, etc).

The Institutional FDI Fitness theory was developed by Wilhelms & Witter in 1998. The term fitness means the country's ability to attract, absorb and retain FDI. This theory rests on four fundamental pillars: government, market, educational and socio-cultural fitness. The base of the pyramid consists of socio-cultural factors which are the oldest

and most complex of all institution. The education lies above socio-cultural factors because educated and skilled human capital possesses creativity and information processing ability. The third important factors are markets. Developed and well-functioning markets are important feature in the MNCs investment decision making process. The fourth and the last pillar is the government. Country's political strength has huge role to attract FDI. Government fitness requires the adoption of protective regulations like economic liberalization, low foreign exchange and trade intervention, low corruption and greater transparency to manage market fitness.

(Makoni, 2015) said that though these factors are represented in order, they are inter-related. For example: government policies shape markets, education and socio-cultural activities. Likewise, market forces impact on the government, education and socio-culture. Similarly, education affects human capital, government, markets and socio-cultural norms and practices; and finally socio-cultural systems are the origin of government, markets and education respectively.

Microeconomic theory of FDI examines FDI motivation from the investor's point of view. In Humer point of view, the decision of an MNC to invest abroad relied on access to raw material, economies of scale, access to labor, low transaction costs, intangible assets in the form of brands and patents among others. In contrast, Macroeconomic theory of FDI views FDI as a particular form of flow of capital across national borders from home countries measured in balance of payment statistics (Hymer, 1976). The macro-economic determinants of FDI consists of: market size, economic growth rate, GDP, infrastructure, natural resources, institutional factor specially, political stability of the country.

2.3.3 Determinants of FDI

There are numerous determinants of FDI inflows. They affect either directly and indirectly or positively and negatively. Various researches have concentrated mainly on GDP, inflation, trade openness, availability of natural resources, government's policies, quality of infrastructure, market size, political and economic stability, fiscal incentives, labor cost, investment/ business climate as major determinants of FDI. The opportunities of investments as highlighted by the investment Board of Nepal are as follows:

2.3.3.1 Availability of Human Resources at Low Cost

Investment Board of Nepal has stated many reasons favorable for investments in Nepal. Foremost and important reason is the human resource. Nepal is in comfortable position in terms of human resource. Currently 57% population of Nepal (age between 15-59) is working population. The cost of labor compared to other countries is also low. Any investor can get skilled and unskilled labor in low cost compared to other poor and neighboring countries.

2.3.3.2 Member Countries of different International Organization and Commitments towards Treaties and Agreements

Government of Nepal has many agreements and treaties related to trade. Nepal is also the members of different organizations like SAARC, BIMSTEC, WTO, MIGA, UNESCAP, UNCTAD, BRI which benefits the trade of Nepal. Moreover, Nepal has trade relate agreement BIPPA agreement with 5 countries including Finland, the United Kingdom, Mauritius, France and Germany. Nepal has also signed Treaty of Trade and Treaty of Transit with India. Nepal has also DTAA agreement with 11 countries (Austria, Bangladesh, China, Norway, Pakistan, Qatar, India, Korea, Mauritius, Sri Lanka and Thailand to boost the trade. There is no doubt Nepal is dependent on India for trade to third country because of nearest accessibility to sea route. Nepal has also implanted Transit and Transport Agreement with China to decrease the dependency to India and open the multiple trade route.

2.3.3.3 Financial Advantages

Government of Nepal has also provided the financial advantages for the foreign investors. Government of Nepal has provided up to 100% ownership to foreign investors which gives investor authority and ownership to his capital and intellectual property. Government of Nepal has also introduced tax holiday for some sectors and locations in expectation of attracting different investment which would profit investors as well as different community and sectors within Nepal. Government of Nepal has also guaranteed fully repatriation for investors. Government of Nepal has also introduced competitive corporate income tax; General 25% and Priority Sectors (Energy, Transport Infrastructure, and Manufacturing): 20%.

2.3.3.4 Supportive Constitutive and Legal Provisions

Government of Nepal has also been doing supportive constitutive and legal provisions which have been helpful for the investors. Realizing the different lengthy and complicated laws government has introduced private-sector friendly laws and policies to prioritize the private sectors, and has ensured the protection of property rights. This has helped to decrease the time of legal process for investors. The other major hurdle is opposition from local community if they are not profited with the projects run within the community. To ensure the advantage within the community Government of Nepal has launched Project Development Agreement for PPP Projects. Realizing the importance of private sectors government has done Project Investment Agreement for Private Projects. To ensure the capital safety the Government of Nepal has also the clear provision for Non-Nationalization and National Treatment.

2.3.3.5 Strategic Advantages

There are different advantages for investment in Nepal. The foremost this is the geographical location. Nepal lies between the two geographically huge, highly populated and economically strong countries China and India which are the huge market for Nepal. Nepal has duty-free and open-border access to India. This has hugely increased the ability for gaining the market and competitiveness for any production in Nepal. Moreover, Nepal has been provided with 8000+product duty-free access to China which has been proved significant to investors in Nepal to compete with the market in China. Nepal has also been provided with 77 items duty-free till 2026 access to US and duty-free Quota-free (EBA) access to the EU countries.

2.3.3.6 Other Advantages

The investors have to face many challenges in investment process. To ensure the safety and quick processes Government of Nepal has provided tourist visa, non-tourist, business and residential visa services. Land Ownership is allowed in the company's name. Government targets to deliver critical industrial Infrastructure such as accessibility of roads and transmission lines to the project sites for realizing the government's vision of 'Prosperous Nepal Happy Nepali'.

However, there are some restricted area/ business/ industries of foreign investment in Nepal. In order to protect and promote local private investors government of Nepal has posed restriction to foreign investors to invest in any of the areas/

business mentioned below as: poultry farming, fisheries, bee-keeping, fruits, vegetables, oil seeds, pulse seeds, mil industry, and other sectors of primary agricultural-production, cottage and small industries, personal service business like hair cutting, tailoring, driving, etc., industries manufacturing arms, ammunition, bullets and shell, gunpowder or explosives and nuclear, biological, and chemical weapons, industries producing atomic energy and radioactive materials, real estate business excluding construction industries, retail business, internal courier service, local catering service, moneychanger, remittance service, travel agency, guide involved in tourism, trekking and mountaineering guide, rural tourism including home stay, business of mass communication media such as newspaper, radio, television, and online news and motion picture of the national language, management, account, engineering, legal consultancy service and language training, music training and computer training. Furthermore, hundred percent foreign investments are not allowed for some sectors.

2.3.4 Legal Frameworks

The article (51 D 10) of Constitution of Nepal 2072 encourage to mobilize foreign capital and technology investment for infrastructure in the area of export promotion, and import substitution and infrastructure development to suit national interest. Similarly, the previous 14th periodic plan also envisioned an innovative, competitive and dynamic economy through the mobilization of foreign direct investment and the fifteenth periodic plan (F/Y 2019/20-2023/24) has visioned to build a competitive and dynamic national economy through the mobilization of foreign investment. Further, in alignment with the constitution of Nepal, Foreign investment policy, 2014 has set the goal of making national economy competitive and dynamic by maintaining trade balance through import substitution and export promotion attracting foreign capital, technology, skill and knowledge in national priority sectors. Different acts and laws governing FDI in Nepal are:

2.3.4.1 Foreign Investment and Technology Transfer Act (FITTA), 2019

This law has guaranteed the provision of national and non-discriminatory treatment to all foreign investment companies. Likewise, foreign investors are allowed for 100% foreign investment in almost all types of industries with no upper ceiling. It has prioritized for technology transfer and protection of intellectual property such as

patent, specification, formula, process and technical knowledge that are open for all sectors of industries. The repatriation is guaranteed in foreign currency, investors are allowed to open branch office or venture capital fund. It also ensures the one stop service center to facilitate all the investment process in one place (DOI, 2022).

2.3.4.2 Public Private Partnership and Investment Act, 2019

There is a high-level body (IBN) to facilitate mega FDI infrastructure projects. It has provisioned for establishment of separate PPP Unit and Investment Unit. Further, it has emphasized for creating viability gap funding for construction, operation, and expansion of projects. Apart of this, one stop service centre has facilitated with authority to issue Survey License, signing MoU and agreements, and granting investment approval (DOI, 2022).

2.3.4.3 Company Act, 2006 (Amended in 2019)

This act allowed registering company online. It has also provisioned for protecting trademark of companies holding 100 % share of private company and versa without conversion public company. It has tried to simplify the provision of buying back its own share to protect itself from any hostile overtake and provide flexibility for issuing shares at premium price (DOI, 2022).

2.3.4.4 Industrial Enterprise Act, 2020

This act classifies industries based on fixed assets investment and nature of business to create investment friendly environment, "No Work No Pay" is provisioned to restrict illegal strikes. It not only allows hiring foreign nationals in a high-level managerial position but also allows importing goods from foreign parent company for market development of new goods and contracting manufacturing for supply of goods and services (DOI, 2022).

2.3.4.5 Labor Act, 2017

This law has allowed for five types of employments: regular, task-based, fixed duration, abrupt and partial. It has clearly mentioned about working days, working age, wages and benefits, trade union rights, labor officers, festival allowance, insurance, social security, public holidays and leave, misconduct and disciplinary action, retrenchment and employee hiring modes (In case of foreign workers, they can be hired with an agreement if no application received for the position or if no local

skill-set is available and work permit is compulsory except for foreign nationals with diplomatic immunity or for those exempted from work permit by law) (DOI, 2022)..

2.3.4.6 Environment Protection Act, 2019 and Rules, 2020

Project must undergo Brief Environment Studies (BES), Initial Environmental Examinations (IEE), or Environmental Impact Assessment based on the size of projects to identify and evaluate potential environmental and social impacts. Industries can obtain the certificate of Pollution Control from Ministry of Forests and Environment or Provincial Ministry after following the necessary processes and applications. Similarly, projects are encouraged to attract good industrial practices and follow international environmental and social safeguards standards (DOI, 2022)..

2.3.4.7 Taxation

The foreign investors need to be registered in Inland Revenue Department (IRD) and comply with tax system. The foreign investors should be complied with the standard of income tax, VAT, corporate tax, interest tax, profit tax, payroll tax, capital gain tax etc. Besides, some relaxations in tax have been offered in the Industrial Enterprises Act, 2016 (DOI, 2022).

2.3.4.8 Foreign Exchange (Regulation) Act, 1962 (Amended in 2019)

It is guided by the provision of “Exchange Arrangement and Exchange Restrictions”. Foreign investors should get approval from NRB after registering at the office of Company Registrar and Tax Office. It has also provisioned to commit their investment in Nepal at least for a year by any foreign investors. Similarly, NRB provides the repatriation approval to the FDI on the basis of recommendation from the concerned regulatory authority.

Foreign investors can repatriate the amount received from the sale of the share of foreign investment as a whole or any part thereof, amounts received as profit or dividend from foreign investment, amount received from the fees or royalties or supply in case of technology transfer, maximum 75 percent of the earning of foreign nationals working in foreign investment company (NRB, 2018).

2.3.5 Organizational Arrangements

Foreign investment in Nepal is facilitated by the different agencies depending upon the investment volume. Department of Industry approve the project less than six billion and the Investment Board of Nepal accept the investment project greater than 6 billion. Nepal Rastra Bank, One Stop Service Center, Office of the Company Registrar, Special Economic Zone Authority, FNCCI, Sector Agencies like Telecom, Airline, and Mining, Department of Inland Revenue, Central Bank and Department of Immigration are also involved in this process.

2.3.5.1 Ministry of Industry, Commerce, and Supplies

This ministry is responsible for formulation of policies, laws, criteria, and regulations regarding industrial corridor, industrial park or village, and export process center, foreign investment and technology transfer Industry, Patents, design, trademark, geographical indications, dry ports, international container rate station, service, cargo warehouse policy and operations and contact, coordinate, negotiate, compromise, monitor the organization with regional and subregional trade and independent business sector, including SETTA, BIMSTEC, etc. (DOI, 2022).

2.3.5.2 Investment Board Nepal

It is an apex government entity established in 2011 that facilitate economic development of Nepal through the mobilization and management of domestic as well as foreign investments to accelerate industrialization and the development of infrastructure in the potential sectors like hydropower, chemical fertilizers and integrated solid waste management. It is responsible for creating conducive environment to finance large infrastructure projects and coordinate efforts to attract investment in Nepal. Further, its responsibilities are to study and recommend the competitive advantageous areas for investment, facilitate on 'one window service for the potential investors within the country, provide incentives to attract investment and engages in investment promotion activities. Till date IBN has approved 27 projects constituting net worth of 7.04 billion USD and Around 20 projects have gone through implementation which worth about 4.88 billion USD (IBN, 2022). IBN approve the investment in the construction and development of infrastructures and industries like track, road, tunnel, railway, airway, airport, rope way, trolley bus, waste management plants, chemical fertilizers, production factory, petroleum refinery plant, bridges,

banks and financial institution, insurance company, medical colleges, hospitals, nursing homes, hydropower projects, SEZ zones, export processing zones, IT park, mining in etc. as specified by the Government of Nepal(DOI, 2022).

2.3.5.3 One Stop Service Centre

It was established on 15th May 2019, in the premises of DOI. It approves the investment less than six billion. The center is primarily established to reduce the hassles of investment process by any foreign investors and to provide them services at one place. Trouble of visiting to different government offices to get paperwork done by the foreign investors has been reduced. It provides services from registration of firms to the procedures of exit. The services include: recommendation of visa to the foreign investors, their authorized representatives, and foreign experts, initial environmental examination, environmental impact assessment, foreign currency exchange facilities, and other related services. The center consists of the representation of fourteen different government organization under a single roof (DOI,2022).

2.3.5.4 Department of Industry

It is another major agency responsible for implementation of industrial policy, acts, rules and regulations. It administers and facilitates the middle and large-scale industries with fixed assets of more than 100 million.

It performs administrative works related to industrial property, approves initial environment examination report of the industry, prepares raw material consumption norms for the industry, monitors environmental compliance of the industries and when required, recommends certificate of origin for the products, and act as the secretariat to Industry and Investment Promotion Board and One Stop Service for administration of various facilities as provided by IEA (DOI, 2022).

2.3.5.5 Department of Immigration

It is visa facilitation unit in the premises of DOI. Some of the major visa services provided by this unit are as follows: issuance and renewal of business visa for the investors, business representatives, and their dependents with the recommendation of foreign investment and technology transfer unit, issuance and renewal of Non-tourist (Working) visa to the foreign working in the industry/company with FDI or domestic investment in Nepal.

Recommendation letter from the foreign investment and technology transfer unit along with the labor permit from labor department and work permits from Ministry of Home Affairs are mandatory for such visa (DOI, 2022).

2.3.5.6 Custom and Revenue Unit

On behalf of the revenue department, this unit renders the following services: Issuance of excise license as per the Excise Duty Act, 2002, PAN certificate as per Income tax Act, 2002, and value added tax registration certificate as per the Value Added Tax Act, 1996. Similarly, it enrolls biometric details of the taxpayer for the aforementioned services and provide the necessary information about custom revenue related queries of the investors (DOI, 2022).

2.3.5.7 Nepal Rastra Bank

It is the foreign exchange facilitation unit at One Stop Service Centre. It performs following roles and responsibilities: provides approval to remit foreign currency into Nepal as foreign Investment, receive and verify pre-notification requests to remit foreign currency into Nepal for foreign investment (for FDI which does not involve change in ownership structure of FDI receiving industry), recording of FDI and foreign loans, provides approval to remit foreign currency into Nepal as foreign loan, provide foreign currency exchange facility approval to repatriate various earnings of Nepali industries with foreign investment (including repatriation of technology transfer royalty), provide foreign currency exchange facility approval to repatriate principal and interest repayment concerning foreign loans (can be processed directly by commercial banks if NRB has already approved payment schedule) and provide information and guidance regarding FDI and foreign loan to industries and current or potential foreign investors (DOI, 2022).

2.4 Review of Books, Research Theses, Research Articles, Reports, News

Articles in National Context

According to (UNCTAD, 2003), FDI inflows to Nepal started only in the early 1980s (5.78 million \$) and it was very low in comparison to that of neighboring countries India (364.9 million\$) and China (16.92billion\$). It was minimal or even negative during 1980-1989 with an annual average of \$0.5 million.

The inflow was accelerated after the economic/trade liberalization of the 1990s but remained very low, averaging only about \$ 8 million annually during 1990-2000 which peaked at \$23million in 1997. The bilateral trade treaty with India concluded in 1996 allowed India to import goods from Nepal free of import duty and quantitative restrictions of the goods were manufactured in Nepal that encouraged Indian investors to invest in Nepal after 1996.

The liberal exchange rate regime was another reform for encouraging FDI inflows in the country. The currency was made partially convertible in the current account in March 1992 and fully convertible in February 1993. Since 1994, all individuals and firms have been allowed to open accounts in major convertible currencies with domestic banks after showing evidence of the source of foreign exchange.

After restoration of multi-party democracy, the government introduced 'One Window Policy' whereby the Department of Industries was given all the responsibilities related to FDI. The formulation of draft of a New Foreign Investment and One Window Policy, 1992 opened up avenues for liberalized trade policies, reduced tariff rates and introduced a duty drawback scheme. Similarly, adoption of current account convertibility scheme brought positive impact on the inflows of FDI (22.1 million \$) every year during the latter years of the decade.

However, the decade long insurgency in the year 1996 caused reversal and decrease of FDI in Nepal. Thereafter with the end of insurgency and abolition of monarchy system the FDI inflows has risen gradually and reaching to 104.6 million \$ in FY 2009/10 and 116.3 million \$ in FY 2010/11 (NEF, 2013).

The COVID-19 pandemic has severely impacted on FDI inflow in the globe declining around 35 % in 2020 which is more severe than those seen after Global Financial Crisis in 2009 and has posed significant challenge in many developing countries where FDI has been seen as a potential source of external financing in recent years.

According to (Phuyal & Sunuwar, 2018), "One of the main reasons behind the Singapore becoming an economic success was foreign trade which helped to transform this tiny state into a regional powerhouse. The free flow of capital and the extent of openness of the overall market are the major determinants for success of any economy.(Bista, 2020) explained FDI stock, Policy environment and security as a

major determinant of FDI inflow and he also observed the positive relationship between FDI and GDP.

The study conducted by (Parajuli, 2021) analyzed “the impact of foreign direct investment on Nepal’s economic growth over the period 1990/91 to 2019/20. The findings revealed that economic growth is directly related to inflow of foreign direct investment. Administrative red tape, delays in operation and facilitation of basic services like electricity and roads are influential for deteriorating the confidence of foreign investors.

(Upreti, 2020) has shared his view on myrepublica.com about the importance of bilateral dialogue and negotiation cooperation and action to resolve the border disputes for win-win outcome for Nepal and India. India often has border disputes with countries like Nepal, China, Pakistan and Bangladesh. In the past time the area of Nepal was expanded from the Tista River in the East to the Kangada fort in the West and confluence of the Ganga River in the South. However, Sugauli Treaty resulted from Anglo-Nepali War of 1814-16 has led to the loss of huge area between Mechi to Tista in the East, Mahakali to Satlaj in the West and huge plain area in the South. In 1860, the British rulers returned Banke, Bardiya, Kailali and Kanchanpur (also called as NayaMuluk) to the JungaBahadurRana for helping British rulers to suppress mutiny of 1857-59 which was formalized through a supplementary boundary treaty and the boundary between these two countries has been fixed.

He further suggested five complimentary principles: mutual respect, use of historical evidences like treaty documents, maps, letters, memos, agreement, etc., listening to the experts and vision and determination of the highest-level political leadership to settle this dispute through negotiation.

2.5 Review of Books, Research Theses, Research Articles, Reports, News Articles in International Context

Many developing countries, emerging economies and countries in transition have given greater priority for FDI. These countries have liberalized their FDI policies and pursued other provisions and policies to attract investment. They are trying to address the issue of how best to pursue domestic policies to maximize the benefits foreign investment in the domestic economy (OECD, 2002).

The study of (Ali &Guo, 2005) Identified market size and growth, labor cost, host government policies, cost of capital, geographical distance and cultural differences as the factors for attraction of FDI in China. They also said that identifying determinants of FDI in China is a broad and complex issue.

(Saini &Singhania, 2018) investigated the potential determinants of FDI using panel data in developed and developing countries and found the diverse results across different countries. In developed countries, FDI showed policy related determinants like GDP growth, trade openness, and freedom index) and in developing countries FDI is positively associated with economic determinants like Gross Fixed Capital Formulation, trade openness, and efficiency variables.

The study of determinants of FDI in India conducted by (Singhania& Gupta, 2011) found that only GDP, inflation rate and scientific research are significant variable among other macroeconomic variables and the FDI policy change during 1995-1997 had a significant impact on FDI inflows into India.(Sahoo, 2006) identified the market size, labor force growth as the most significant determinants of FDI. However, infrastructure index and trade openness are also an influential factor of FDI.

Taxation of corporate income has a direct effect on the returns that are realized by the firm that makes an investment in the host country and hence should be an important determinant of FDI inflows. Generally, a low corporate tax rate is supposed to attract and retain foreign investors (Appiah-Kubiet.al., 2021). In addition, lowering corporate tax has been used by many emerging market economies to attract more investment inflows. (Arbatli, 2011) demonstrated the negative influence of corporate tax rates on FDI flows. The higher tax rate of host country would discourage FDI inflows.

Results achieved by (Parys & James, 2010), on one hand, showed that reduced complexity of the tax system helped to attract FDI, however, the tax holidays, as one of the most popular fiscal incentives, had no robust positive relationship to FDI. The study of (Appiah-Kubi, et. al., 2021) shows that tax incentives play a significant role in attracting foreign direct investment in Africa.

The other FDI incentives offered by developing countries to attract FDI inflows is the financial incentives by means of direct capital subsidies or subsidized loans. Financial incentives include: grants, subsidized loans and loan guarantees, publicly funded

venture capital participating in investment involving high commercial risks and government insurance at preferential rates (Banga, 2003).

(Brewer, 1993) opined that same government policy can increase and/or decrease market imperfection and thereby increase and/or decrease FDI. Their empirical data found out that selective government policies on FDI inflows is ambiguous.

The trade liberalization and openness to trade and investment has created enabling environment for development and strengthening international networks. The host country's ability to attract FDI is influenced significantly by the access to import and export activities. Host countries could consider a strategy of attracting FDI through raising the size of the relevant market by pursuing policies of regional trade liberalization and integration (OECD, 2002).

The study investigated by (Khaliq&Noy, 2007) about the impact of FDI on economic growth using detailed sectoral data for FDI inflows in Indonesia over the period 1997-2006 found that in aggregate level, FDI has a positive effect on economic growth and when examining different impacts across sectors (farm food crops, livestock product, forestry, fishery, mining and quarrying, non-oil and gas industry, electricity, gas and water, construction, retail and wholesale trade, hotels and restaurant, transport and communications and other private and service sectors). Very few sectors were positively affected by FDI. Mining and quarrying showed robust negative impact of FDI inflows.

The contribution of FDI on economic growth of Africa using graphical and regression analysis using time series data was estimated to be positive in most of the countries but not significant. From the continent's point of view, the contribution of FDI to growth was estimated to be positive but when dealing with some selected countries, found positive contribution of FDI to growth and others were not contributed positively (Adewami, 2006)

Bilateral Investment Agreement (BIT) generally recognizes the effect of national law on FDI and accepts the right of governments to regulate entry of FDI. It exclusively deals with investments and lay down specific standards of investment protection and transfer of funds. It makes provisions for the settlement of disputes between the treaty partners and considers for non-discrimination in the treatment and other related field (Banga, 2003). Initially, this agreement was done between developed and developing

countries because developed countries were the major source of investments. However, the decade of 1990 many developing countries has witnessed an increasing number of bilateral investment agreement between developing countries themselves.

Country's trade policy provides significant result in the FDI flows. Trade in its different aspects is found to be a determinant of foreign investment. The results of (Kok & Erosy, 2009), (Kersan-Škabi, 2013) and (Noorbakhsh & Paloni, 2001) showed the positive impact of trade on FDI inflows. The sensitivity analysis of (Chakrabarti, 2011) depicts that openness to trade has the highest likelihood of being correlated with FDI (Nunnenkamp, 2002).

(Sattarov, 2012) mainly focused on location-specific factor to investigate FDI determinants in Kazakhstan and Uzbekistan and found that market size, economic stability and reliability were significant factors for FDI inflows in both countries. Additionally, trade openness was found to be crucial factor among others for FDI inflows in Uzbekistan.

(Parashar, 2015) investigated the macroeconomic indicators (market size, infrastructure, the opportunity cost for investors, trade openness, growth rate, policy changes and inflation) determining of FDI inflow in China and India using time series data for 34 years from 1980 to 2013 and applied linear regression analysis. His study revealed the market size as a potential factor in both countries. Further, in China lower wage rates play an important role in attracting FDI, while in India, it is policy reforms that play a crucial role in attracting FDI.

A quantitative study on the determinant of FDI in Central Asian region conducted by (Ashurov et. al., 2020) between 2000 and 2017 showed the variables like FDI (previous year), trade openness, tax, labor force and GDP are robustly significant determinants of FDI in Tajikistan, Kazakhstan, Turkmenistan, Kyrgyzstan and Uzbekistan. Additionally, their study demonstrated that among the most significant FDI contributors are China, Russia and Japan as well as European countries because of the availability of economic opportunities. However, the USA is considered by Central Asian countries to offer the most opportunities for security control consideration rather than economic opportunities. Furthermore, their result suggested to the authorities in the Central Asia to enhance the stability of their economic growth, labor force, trade openness and tax regulations to attract more FDI to these regions.

(TA et. al., 2021) identified FDI attraction policies as the strongest impact on investors' FDI intention followed by infrastructure, public service and human capital. Finally, the standard of living also affects the investors' FDI intention and the result showed positive relationship between the factors and the investors' FDI intention. They recommended to enhance attraction of FDI into QyangNinh Province.

(Hayakawa et.al., 2022) analyzed the complex effect of COVID-19 on FDI flows. Their research showed that COVID-19 had an immediate negative impact in Greenfield FDI and cross-border M&A in the case of manufacturing sector. In service sector, there was negative impact only. However, the home country's COVID-19 had a positive effect on Greenfield FDI in the manufacturing sector. Further, the host's country's COVID-19 damage had a negative lagged impact on M&A FDI in both the manufacturing and service sectors while there was no such lagged impact on Greenfield FDI.

2.6 Research Gap

Literature reviews are essential for finding research gap and issues. Most of the studies deals with the macroeconomic variables as a determining factor for FDI. Similarly, many research are focused on analyzing the trends of FDI and its contribution in GDP formation. After reviewing many literatures, I found very little or no studies regarding the impact of geographical location and diplomatic mission on FDI inflow in Nepal. Nepal as geographically landlocked country, its economic and non-economic diplomacy can affect in the FDI inflows within the country. Likewise, there is no relevant research on trend analysis of FDI till 2078 in Nepal. Therefore, it is imperative to study the trend of FDI inflow and factors affecting it in Nepal.

2.7 Theoretical Framework

According to (Musabeh, 2018), "in the initial stage of FDI researches, the FDI theories relied upon trade theory and made clear about the motto of some firms and companies to operate business into a selective country". This view is also supported by (Banga, 2003) who identified the comparative advantage of the host countries as the most important determinant of FDI which tried to explain the "resource seeking" FDI. Later on, this theory was challenged by market access theory because it was not able to clarify about why country chooses FDI and not trade? With the flow of time

and rapid integration of global markets in the 1980s and 1990s, the emphasis was given to greater access to integrated markets.

An alternative explanation which is also called as “Efficiency-Seeking” FDI priorities on internalizing transaction costs so as to improve profitability. To overcome the issues of exploitation of relevant assets in particular countries, (Dunning, 1993) came up with his theory called as “Dunning Eclectic Approach” and according to him, FDI emerges because of ownership, internalization and location advantages.

The present study is based on same paradigm as (Banga, 2003) who applied Dunning’s Eclectic Approach to analyze the cross-country pattern of FDI in Asian developing countries because location advantages based only on the economic conditions is not sufficient to attract FDI in the competitive global economy. There is a need for improving and sustaining ownership, internalization and location advantages in the host countries through the significant role of government of host country.

2.8 Conceptual Framework

It is the framework that depicts the relationship between different types of variables under study that one supposed to see and find out. Based on literature review, this study has focused to find out the relationship of FDI inflow with mainly two variables. A variable is any characteristics, number, or quantity that can be measured or counted. The thrust of this study is to examine how geographical location and diplomatic mission affect FDI inflows in Nepal although many factors and determinants are associated with the increase and/or decrease of FDI inflow which are different from the perspective of context and country. Both dependent and independent variables have been identified and single regression model was performed to determine relationships between them. The dependent variable of the study is FDI inflows and the independent variables are the geographical location and the diplomatic mission.

2.8.1. Dependent Variable

Dependent variable is the variable that changes as a result of the manipulation in independent variables. The concern of the study is that certain volume of FDI has

been inflowed in the developing country like Nepal which is playing crucial role for generation of employment opportunities, transfer of technology, capitals, management practices, and culture, utilization of unexplored natural resources, production of competitive goods and services, and raising the economic growth of the country through the establishment, operation and development of large and medium scale industries.

2.8.2 Independent Variable

Independent variable is a variable that is manipulated to determine the value of independent variable. Mainly, this study has tried to explore two different independent variables and their effect on FDI inflows in Nepal. One major independent variable named geographical location of this study consists of following items:excessive dependency on trade with immediate neighboring countries, increased time and cost for transportation, narrow domestic market, and uneven geopolitical relationship with neighboring countries, lack of proper and adequate infrastructure, insecurity of investments among the new and old investors and frequent border disputes and blockade issues

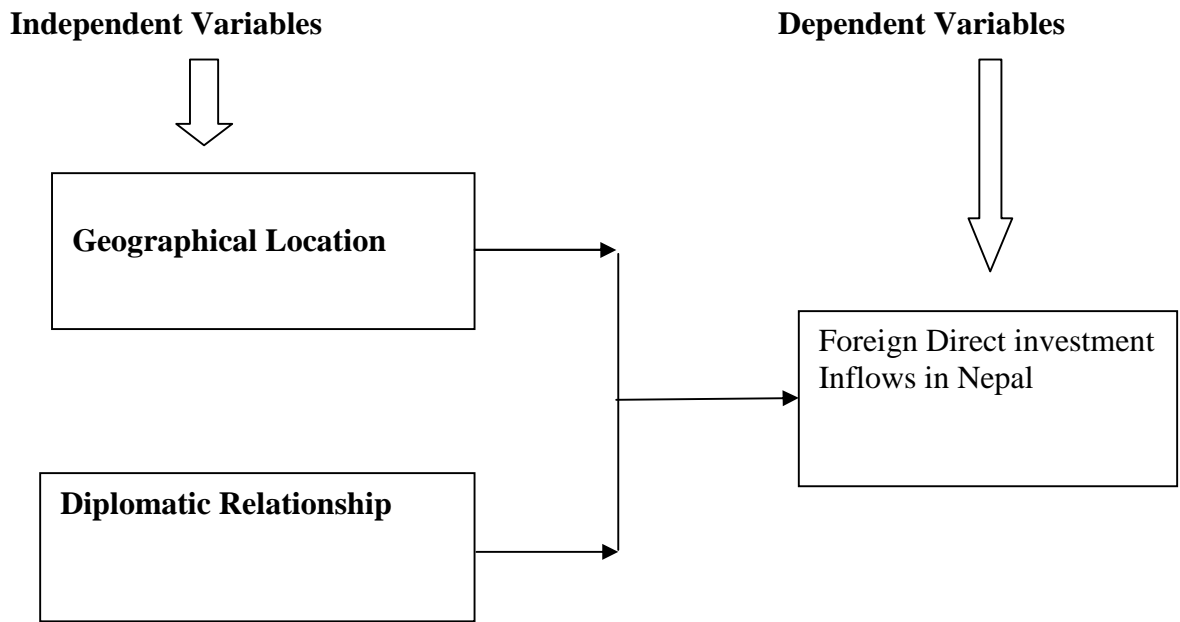
Another important independent variable named diplomatic mission consist of following items:frequent trade dialogue and negotiation at the political and executive level, progress in roads, airways, tunnel, and transmission lines construction, inter and intra-agency network and coordination, collaboration and communication, facilitation on registration, approval, investment, reinvestment and expansion of projects and repatriation of profits and visa process, financial incentives and tax holidays, bilateral treaties, multilateral conventions, and trade agreement, practical implementation of One Door One Window and One Step Policy, promotion on potential areas of investment like energy, tourism, manufacturing and ICT and so on, political support and commitment, revision and reforms in existing FDI policies and availability of human resource and labor market.

Table 2.1:List of Variables, Measures & Source

S.N.	Variables	Measures	Source
1	FDI Inflows (Dependent Variables)	Employment generation	Investment Board Nepal, Department of Industry, Nepal Rastra Bank, Ministry of Finance, National Planning Commission, (Neupane, 2020), (Parajuli,2021) and so on.
		Utilization of unexplored natural resources	
		Transfer of technology, capitals, management practices and culture	
		production of competitive goods and services	
		Rise in Economic Growth	
2	Geographical Location (Independent Variable)	Excessive Dependence on Trade	United Nations Conference on Trade and Development, Ministry of Foreign Affairs, Investment Board Nepal, (Pant et.al., 2022), (Neupane, 2020), (Parajuli,2021) and so on.
		Increased Time and Cost of Transportation	
		Lack of adequate Infrastructure	
		Narrow domestic market	
		Uneven geo-political Relationship with India and China	
		Insecurity of investment	
Frequent border disputes and blockade issues			
3	Diplomatic Mission (Independent variable)	Trade dialogue and negotiation at the political and executive level	United Nations Conference on Trade and Development, Ministry of Foreign Affairs, Investment Board Nepal, (Pant et.al., 2022), (Neupane, 2020), (Parajuli,2021), Department of Industry, Investment Board Nepal, Nepal Rastra Bank, Economic Survey, Ministry of Finance, National (Phuyal&Sunuwar, 2018), Brewer, 1993) and so on.
		Improved Infrastructure	
		Inter and intra-agency network and coordination, collaboration and communication	
		Facilitation on investment, reinvestment, repatriation and visa processes	
		Provision of financial incentives and tax holidays	
		Treaties, conventions and agreement	
		One door one window policies	
		Promotion of potential areas	
		Political support and commitment	
		Revision and reforms in existing policies	
Availability of human resource and labor market			

Source: Researcher, 2022

The conceptual framework for this study is presented as follows:



Source: Researcher, 2022

2.9 Chapter Summary

In this chapter, I have given brief introduction about geographical location of Nepal. Then, I have presented the concept of FDI which is supported by definition, its types and theories. After this, I have mentioned about reason for investment in Nepal, potential and restricted areas of investment. Different legal, and organizational arrangements provisioned for creation of conducive environment in Nepal are also highlighted. Reviews of various books, research articles, reports, news articles in the national and international context about FDI are clearly shown. Based on literature review and theoretical review, research gap, theoretical framework and conceptual framework have been prepared.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology is the aggregation of various research foundations, Strategies, tools and techniques. Appropriate research methodology is required for result-oriented research. The table shows about the philosophical foundation, research and sampling designs, ethical consideration, reliability and validity and data analysis techniques.

3.1 Philosophical Foundation

The philosophical foundation deals with epistemology, ontology, methodology and axiology. FDI is an important source of external financing. There are numerous benefits of it and facilitates in the transfer of technology, organizational and managerial skills and excess to foreign market and enhance the productive activities of the host country. FDI not only nourishes domestic investment resources but also act as a source of foreign exchange and can relax balance of payment constraints.

However, Attraction of foreign investors has been quite difficult because of unstable government, political instability and bureaucratic hurdles (Prime Law Associates, 2022). Besides these, geographical location and our diplomatic mission has equally affected it. This study tries to get knowledge on the impact of these two factors on FDI inflow in Nepal.

3.1.1 Epistemology

It is the branch of philosophy which deals with ‘the nature of knowledge, its possibility, scope, and general basis (Crotty, 1998). According to (Lever, 2013), it is a way of understanding and explaining how I know what I know, is the study of knowledge. It is about to make meaningful sense of world. It is concerned with providing philosophical grounding for deciding what kind of knowledge are possible and how we can ensure that they are both adequate and legitimate (levers, 2013). In the social science research, central issue is the question of whether the social world can and should be studied according to the same principles, procedures, and ethos as the natural science. The epistemological question asks, what is the nature of knowledge and relationship between the inquirer and the knowledge (Guba& Lincoln, 1994)?

The study deals with epistemological questions like; what is the trend of FDI inflow in Nepal? To what extent the geographical location affects it? And To what extent the diplomatic mission affect it in Nepal? The interpretivist approach was applied to get the answers of such epistemological questions. As FDI inflows is a much related term and many factors affects it which varies person to person and situation to situation.

3.1.2 Ontology (Realist/Relativist)

It is the branch of philosophy which deals with the study of being and raises basic question about the nature of reality and the nature of human being in the world (Levers, 2013). The ontological question asks, what is the nature of knowledge? Or what is the nature of reality (Guba& Lincoln, 1994)?

Different government agencies are involved in FDI process. IBN chaired by the Prime Minister is responsible for approval of large and mega projects consisting of amount more than or equal to NRS. 6 billion. From the date of establishment, IBN has been successful to implement 20 projects worth \$ 4.88 billion out of 27 projects which values about \$ 7.04 billion. Another agency, Department of Industry of Industry, is responsible for administering and facilitating the middle- and large-scale industries having fixed assets of more than NRS. 100 million. Besides, Office of the Company Registrar, Nepal Rastra Bank, Department of Labor, and Department of Immigration are equally responsible to provide services to foreign investors. These agencies are continuously coordinating and collaborating with each other to effectively mobilize Nepalese diplomatic mission to attract more FDI inflows in the country.

The data of department of industry shows that Nepal has received a total of Nrs. 44,722.01 million FDI in 207 different projects in F/Y 2078/79. The agro and forestry-based, energy based, ICT based, infrastructure, manufacturing, service and tourism sectors have received FDI in 4 projects, 1 project, 6 projects, 4 projects, 37 projects, 73 projects and 81 projects respectively. The mineral sectors have received no FDI in any project. Similarly, we have legal and institutional arrangements to mobilize foreign capitals in nation's interest. Besides giving much priority for FDI in Nepal, the inflows is not as expected. Trend shows the gap in commitment and realization of FDI. Various factors are associated with low attraction of FDI in Nepal. However, this study aims to find out how geographical location and diplomatic mission has affected FDI inflows in Nepal by using simple regression model.

This study was guided by relativist ontology. As it depends on the investors' choice to invest in any country outside of homeland. Various micro and macro-economic factors affect its flow and factors associated with FDI is not concrete or rigid or realistic.

3.1.3 Axiology

Axiology deals with the questions like: How has ethics been maintained? What are the values of research? Whether research should be neutral or value-oriented and pragmatic/utilitarian, about the utility and application of the produced knowledge (Chakravartty, 2021). This study is not totally value free. It has tried to incorporate the unbiased views and opinions of the respondents. The ultimate views of the respondents (including experts, specialists, consultants, researchers, government agencies, contractor agencies and foreign investors) have helped to determine the impact of geographical location and diplomatic relationship on FDI inflows, in addition, the secondary data has helped to analyze the trends of FDI inflows within the country. Ultimately, the opinion and information provided by the respondents could guide to make inferences that FDI inflow is affected by geographical location and diplomatic mission.

3.1.4 Methodology

Methodology is used to refer to the research design, methods, approaches, and procedures used in an investigation that is well planned to find something (Kivunja&Kuyini, 2017). The methodological question asks how the knower can go about obtaining knowledge (Guba& Lincoln, 1994). In order to obtain the knowledge on the trend of FDI inflows in Nepal, the secondary data was applied and trend analysis was conducted. The structured open and closed ended survey formed the basis for examining the impact of geographical location and diplomatic relation on FDI inflows in Nepal, significance of FDI inflows in the economic growth and the necessity of FDI in the long run in Nepal. Similarly, the semi-structured interviews with FDI experts and specialist and foreign investors helped analyze the FDI environment in Nepal and provides key ways to improve the government's FDI policies.

3.2 Research Design

This study had applied the Mixed (Quantitative and Qualitative) approach of research design and is descriptive inferential in nature. According to (Zohrabi, 2013), the mixed method has recently risen to prominence because it allows simultaneous collection, analyzation and interpretation of both quantitative and qualitative data. Based on quantitative data this research study has drawn the logical conclusion on trend of FDI inflow in Nepal, the direction of relationship between geographical location and diplomatic mission in FDI inflows in Nepal using simple regression analysis. In addition, the qualitative approach had helped to gather to in-depth view regarding the factors affecting less attraction of FDI inflow and ways to tackle this problem which ultimately helped to draw the inference on objectives of the study.

3.3 Sampling Design

The population of the study solely focused on the civil servants, entrepreneurs, specialists and professors and others who have worked and gain sufficient knowledge in the field of FDI. The major institutions selected for the population were, IBN, DOI (mainly One Stop Service Centre), MOI, Pioneer law Associates, Nepal Rastra Bank, World Bank, Ministry of Finance, FNCCI and SEZA because these are main agencies to facilitate in the procedures of FDI in Nepal. All total 150 respondents are currently working in these agencies. The details of employees were obtained after visiting in these offices. All together 50 respondents were participated in the in the survey and the sampling method used was the simple random sampling method where all the respondents were given equal chance to participate in the online and physical survey.

The purposive and judgmental sampling methods were applied to take interview with experts, government's agencies, contractor agencies and with foreign investors.

3.4 Justification of Research Area

The present study aimed to analyze the trend of FDI inflow and factors affecting it. In order to analyze its trend, it had to be solely relied on the secondary data available in books, articles, reports of authoritative agencies and firms. Again, the primary data was utterly important to examine and analyze the extent of impact caused by geographical location and diplomatic mission on FDI flows. The data were solely

obtained from the survey and interview with experts, bureaucrats and consultants, contractor of FDI agencies including both public and private. Some foreign investors were also interviewed to collect views regarding their motivation for investment and reinvestment. This study has selected those FDI agencies like IBN, DOI, NRB, FNCCI etc. to ensure the reliability and validity of data. Similarly, participation of diverse group of respondents also justifies the research area.

3.5 Data Collection

Data collection is a very important part of research. This study was based on both primary and secondary data.

3.5.1 Primary Data Collection: quantitative primary data was obtained through survey. Survey was conducted in blended mode (Physical and online through email) similarly, the open-ended interview was carried out to collect the qualitative data from the experts, employees, advocates, bureaucratic and contractor agents and foreign investors. Two tools were applied for interview. One is telephone interview and the other is personal meeting).

3.5.2 Secondary Data Collection: The reports of Nepal Rastra Bank, UNCTAD, Nepal Investment Board, Central Bureau of Statistics, Ministry of Finance, FNCCI and the documents of National Planning Commission, research articles, reports, books, newspaper articles in the national and international context provided the strong basis for secondary data

3.6 Measuring Scale

In this study the respondents were given structured questionnaires both in printed and online form. The first part of the questionnaire was about the demographic whereas, the second part consisted of questions mainly related with dependent variable and independent variables and they were requested to present their opinion on five-point Likert scale ranging from strongly disagree, disagree, don't know, agree, and strongly agree. Further, the respondents who viewed don't know opinions were omitted from the study and four-point Likert scale was applied to get the result. The each and every subjective data opined by the respondents were narrated and both data were transcribed to give the conclusion for the study.

3.7 Data Analysis and Presentation

Regression Model was run in IBM SPSS 26.0 Version to analyze quantitative data i.e. the trend of FDI and the extent of individual relationship of geographical location and diplomatic mission on the inflows of FDI into the country. The regression model not only predicts the relationship between the variables but also enables to identify to what extent there is relationship between dependent variable and independent variables.

The relationship between dependent variable and independent variables through two different simple regression model are represented as follows:

$$Y = b_1X_1 + C + E \text{ ----- (i)}$$

Where,

Y = FDI (Dependent Variable)

X₁ = Geographical Location (Independent Variable) or Diplomatic Mission (DM)

b₁ = Coefficient of X₁

C = Constant (y-intercept) &

E = Error term

After putting the value of b₁, b₂, C & E obtained from the regression analysis in SPSS in equation I, we get the equation as:

$$\begin{aligned} Y &= 0.367X_1 + 0.466 X_2 + 0.960 + 0.48847 \\ &= 0.367X_1 + 0.466 X_2 + 1.45 \text{----- (ii)} \end{aligned}$$

Similarly, the obtained qualitative data were transcribed and analyzed through the researcher point of view. Finally, Analytical Generalization technique was applied to merge the quantitative and qualitative data.

3.8 Ethical Consideration

The research ethics was applied throughout the research journey. A written consent was obtained to gather both quantitative and qualitative primary data from the respondents and make ensured them about the confidentiality of their opinions. Furthermore, their opinions and thoughts were highly appreciated and were used for academic purpose only. Along with this, the secondary data obtained through

government and other various sources has been properly cited and mentioned in the bibliography. Likewise, the biased, misleading and incomplete reporting of the result was removed to make the study more objective and relevant.

3.9 Reliability and Validity

According to (Haradhan, 2017), “Validity and reliability ensures transparency of research. It decreases the inclusion of researcher’s biasness in any research. Reliability alone does not ensure the validity of the study. Reliability determines whether your study is repeatable or not. It denotes the consistency of your measurement across time and spaces while, validity measures whether the result obtained meet all the requirements of scientific research”.

The mixed approach research study has certainly helped to ensure the reliability and validity of the study. The validity of the study was ascertained through on-time collection of data from the respondents with the help of standardized questionnaire, structured standardized interview guidelines.

The governments' reports regarding FDI environment and trends and literature review of different research articles helped to gain the content validity of the study. Similarly, construct validity was ensured with the regular consultation with the experts and literature review of different variables from the research articles. Likewise, Criteria validity was ascertained through the comparative analysis of results with others researcher’s results.

Internal consistency of the result was ensured through Cronbach Alpha. The different rule of thumb for value of Cronbach’s alpha as mentioned by (George & Mallery, 2003) are as follows: If Cronbach alpha value is greater than 9, it is Excellent. Similarly, if it is greater than 8, it is good. Likewise, if it is greater than 7, it is acceptable. While, if the value is greater than 6, it is questionable and less than 6, it is poor and unacceptable.

Table 3.1 Reliability Statistics

Reliability Statistics		
Variables	N of Items	Cronbach's Alpha
FDI	5	.910
GL	8	.831
DM	13	.919

Source: Field Survey, 2022

Cronbach's alpha was run to determine the reliability of the study. The result of Cronbach's alpha for FDI (=0.910), for GL (=0.831) & for DM (=0.919) which is greater than 8 denotes that reliability is good for the study. The value of Cronbach's alpha normally ranges from 0 to 1. However, there is actually no lower limit to the coefficient.

CHAPTER IV

DATA ANALYSIS AND PRESENTATION

This section analyzes and presents the collected data based on the objective of the study. Tables have been used to present and analyze the data. The objectives of the study were to analyze the trend of FDI and to examine the extent of relationship between dependent variable and independent variable.

4.1 Demographic Characteristics of the Respondents

This descriptive nature of demographic variables has provided the basic information about the research participants. The particular demographic characteristics of the respondents are categorized by gender, age, education, profession, work experience and their designation. All total 35 respondents were participated in the survey. The details of the demographic characteristics of the respondents are presented in the table below:

Table 4.1: Gender-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Gender	Male	27	77.1
	Female	8	22.9
Total		35	100.0

Source: Field Survey, 2022

Gender is a primary means of measuring and analyzing various aspects of the study. Out of 35 respondents 27 (77.1%) were male and 8 (22.9%) were female. The number of male respondents is two times more than that of female respondents.

Table 4.2: Education-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Education	Bachelor	4	11.4
	Master	28	80.0
	M.Phil.	2	5.7
	Ph.D.	1	2.9
Total		35	100

Source: Field Survey, 2022

This study consists of only educated respondents who have a good knowledge about foreign direct investment and its importance in economic growth and development in Nepal. The education-wise distribution of respondents shows that (11.4 %) respondents have Bachelor degree. The major respondents have Master degree consisting of (80.0) %. The remaining (5.7%) and (2.9%) respondents have M.Phil. and Ph.D. Degrees respectively.

Table 4.3: Age-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Age	<35	11	31.4
	35 to 40	10	28.6
	40 to 45	7	20.0
	45 to 50	3	8.6
Total	35	100.0	Total

Source: Field Survey, 2022

Age is a common demographic variable in research. The study consists of age group from below 35 to above 50. The age group <35 consists of (31.4%) respondents. (28.6%) belong to the age group 35-40. Similarly, (20.0%) were in the age group 40-45. Likewise, (8.6%) belong to age group 45-50 and the remaining (11.4%) were in the age group >50.

Table 4.4: Profession-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Profession	Civil Servant	20	57.1
	Specialists	5	14.3
	other	10	28.6
Total		35	100

Source: Field Survey, 2022

Different government agencies and contractor agencies are involved to plan, implement, monitor and evaluate FDI related policies in Nepal. More than 50 % respondents were civil servants (57.1%). The remaining respondents (14.3%) were specialist and (28.6%) belongs to other profession.

Table 4.5: Work Experience-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Work Experience	<5	4	11.4
	5 to 10	9	25.7
	10 to 15	11	31.4
	15 to 20	6	17.1
	>20	5	14.3
Total		35	100.0

Source: Field Survey, 2022

This study comprised of experienced research participants. Most of the respondents had work experience of 5 to 10 and 10 to 15 years consisting of (25.7%) and (31.4%) respectively. The other respondents had the work experience of 15 to 20 years (17.1%), <5 years (11.4%) and some had work experience of even >20 years (14.3%).

Table 4.6: Designation/Job Position-Wise Distribution of Respondents

Demographic Variable	Category	Frequency	Percent (%)
Designation	Officer	13	37.1
	Consultant	2	5.7
	Director	6	17.1
	Deputy Director	1	2.9
	Under Secretary	2	5.7
	Legal Researcher	2	5.7
	Freelance	1	2.9
	Engineer	1	2.9
	Senior Assistant	2	5.7
	N/A	5	14.3
Total		35	100.0

Source: Field Survey, 2022

This study involved the research participants with different designations. Most of the respondents were designated to the Section Officer (37.1%). Similarly, (17.1%) were designated to the post of consultant, (14.3%) respondents were Senior Assistant. The other (5.7%), (5.7%), (5.7%), (2.9%), (2.9%) and (2.9%) respondents were designated as Deputy Director, Under Secretary, Engineer, Director, Legal Researcher and Freelancer respectively and some (5.7%) respondents did not mention their job position. 6,615.

Table 4.7: Descriptive Statistics of FDI inflow in Nepal

FDI inflows in Nepal	Scaling								N	M	SD
	SD	%	D	%	A	%	SA	%			
It has generated employment opportunities	1	3			16	46	18	51	35	3.5	0.7
It has utilized the unexplored natural resources	2	6	3	9	22	63	8	23	35	3.0	0.7
It has facilitated in transfer of technology, capitals, management practices and culture	1	3			17	49	17	49	35	3.4	0.7
It has made countries economy dynamic and competitive through production and movement of goods and services	1	3			15	43	19	54	35	3.5	0.7
It has helped to raise the economic growth rate of the country	1	3	2	6	15	43	17	49	35	3.4	0.7

Source: Field Survey, 2022

The above table 4.14 represents the descriptive statistics of FDI inflows as a dependent variable. The variable consists of 5 items. The mean value ranged from 3.0 to 3.5. The lowest mean value is possessed by (It has utilized the unexplored natural resources) while the highest mean value is possessed by (It has made countries economy dynamic and competitive through production and movement of goods and services). The average mean and standard deviation values are 3.4 and 0.7 which depicts that inward flow of FDI has created employment opportunities through use of unexplored natural resources, production and movements of goods and services and helped to rise the economic growth rate of Nepal.

Table 4.8: Descriptive Statistics of Geographical Location

Geographical Location	Scaling								N	M	SD
	SD	%	D	%	A	%	SA	%			
Excessive trade deficiency on trade with immediate neighboring countries has demotivated foreign investors to invest into the country	3	9	18	51	13	37	1	3	35	2.3	0.7
Increased time and cost for transportation is hindering FDI inflows in Nepal			9	26	21	60	5	14	35	2.9	0.6
Narrow domestic market has shrunk the volume of FDI inflows in Nepal	1	3	7	20	20	57	7	20	35	2.9	0.7
Uneven geopolitical relationship with neighboring countries has severely impaired FDI in Nepal	2	6	9	26	13	37	11	31	35	2.9	0.9
Lack of Proper and adequate infrastructures are another main reason for low flow of FDI			2	6	21	60	12	34	35	3.3	0.6
Poor performer/host of FDI in the world is not attracting new and existing foreign investors	1	3	4	11	21	60	9	26	35	3.1	0.7
Insecurity of Investment and goodwill is not encouraging new and old foreign investors	2	6	9	26	15	43	9	26	35	2.9	0.9
Frequent border issues and blockade issues have posed threats for FDI	3	9	12	34	12	34	8	23	35	2.7	0.9

Source: Field Survey, 2022

This table 4.15 shows the descriptive statistics of geographical location as an independent variable. This variable is measured by 8 constructs. The mean value ranged from 2.3 (Excessive trade deficiency on trade with immediate neighboring countries has demotivated foreign investors to invest into the country) to 3.3 (Lack of Proper and adequate infrastructures are another main reason for low flow of FDI). The average mean and standard deviation scores are 2.9 and 0.8. It means that respondents disagreed moderately on geographical location has not lower the FDI inflows in Nepal.

Table 4.9: Descriptive Statistics of Diplomatic Mission

Diplomatic Mission	Scaling								N	M	SD
	SD	%	D	%	A	%	SA	%			
Frequent dialogue and negotiation at the political and executive level for trade liberalization has promoted for greater inflow in Nepal.	2	6	4	11	22	63	7	20	35	3.0	0.7
Progress in roads, airways, tunnel and transmission lines construction have expanded FDI volumes	1	3	6	17	18	51	10	29	35	3.1	0.8
Inter and intra agency network, coordination, collaboration, and communication and the concept of land linked strategy have created conducive environment for greater inflows of FDI			5	14	23	66	7	20	35	3.1	0.6
Facilitation on registration, approval, investment, reinvestment and expansion of projects and repatriation of profits and facilitation in visa process have encouraged the foreign investors	1	3	5	14	18	51	11	31	35	3.1	0.8
Financial incentives and tax holidays and safeguarding of intellectual property rights and goodwill have encourage the high inflow of FDI	1	3	5	14	22	63	7	20	35	3.0	0.7
Bilateral treaties, multilateral conventions, member country of multilateral organization and trade agreements have promoted FDI in Nepal	1	3	4	11	24	69	6	17	35	3.0	0.6
One door one window, one step policy is practically implemented and sufficiently facilitated for FDI inflows in Nepal	3	9	11	31	17	49	4	11	35	2.6	0.8
Promotion on potential areas of investments like energy, manufacturing, tourism, and information technology has attracted more FDI			5	14	21	60	9	26	35	3.1	0.6
we have higher political support and commitment for creating favorable environment for creating favorable environment for FDI inflows	2	6	18	51	12	34	3	9	35	2.5	0.7
Strategic advantages like duty free and access to India, China, EU, and other countries has helped in the increment of FDI volume	2	6	11	31	16	46	6	17	35	2.7	0.8
Revision on minimum investment criteria fair and equal treatment among the investors and other policy reforms have bring positive impact on FDI inflows	1	3	5	14	22	63	7	20	35	3.0	0.7

the existing human resource and labor market is sufficient to attract higher inflow of FDI	5	14	17	49	11	31	2	6	35	2.3	0.8
facilitation for settlement disputes like owing of land, ownership, and expansion of investment has motivated for greater inflow of FDI			2	6	6	17	5	14	35	2.9	0.7

Source: Field Survey, 2022

The descriptive statistic of diplomatic mission as an independent variable consists of 13 items with mean value ranging from 2.3 (The existing human resource and labor market is sufficient to attract higher inflow of FDI) and 3.1 (Promotion on potential areas of investments like energy, manufacturing, tourism, and information technology has attracted more FDI and Facilitation on registration, approval, investment, reinvestment and expansion of projects and repatriation of profits and facilitation in visa process have encouraged the foreign investors). The distribution has the mean score as 2.9 and standard deviation as 0.7 which determines that respondents moderately agreed on diplomatic mission has affected greater inflows of FDI in Nepal.

4.2 Trend of FDI Inflows in Nepal

Trends can be either linear or non-linear. It can increase or decrease over a certain period of time. It is a tool to examine and predict pattern of occurrence or movement of an item based on current and historical data. The study has presented the data of FDI inflows from fiscal year 2069/70 to fiscal year 2078/79.

Table 4.10: Inflow of FDI from F/Y 2069/70 to F/Y 2078/79

S. N	F/Y	FDI (Nrs. Million)
1	2069/70	19,818.73
2	2070/71	20,132.42
3	2071/72	67,455.04
4	2072/73	15,254.33
5	2073/74	15,206.46
6	2074/75	55,760.48
7	2075/76	25,484.44
8	2076/77	37,805.83
9	2077/78	32,172.82
10	2078/79	40,498.20

Source: DOI, 2022

The above table showed the insignificant growth of FDI inflows over a decade long period of time from fiscal year 2069/70 to fiscal year 2078/79. The fiscal year 2069/70 depicted total FDI inflows of 19,818.73 million followed by increasing volume in the two consecutive fiscal years 2070/71 and 2071/72. While, the volumes were decreased in two consecutive fiscal years 2072/73 and 2073/74. The highest volume of FDI inflows was found to be in F/Y 2071/72 which comprised of Nrs. 67,455.04 million whereas the lowest volume was seen in F/Y 2073/74 possessing only Nrs. 15,206.46 million FDI inflows in Nepal. till Jestha of F/Y 2078/79, it was recorded as Nrs. 40,498.20 million is greater than previous three consecutive F/Ys 2075/76, 2076/77 and 2077/78.

In order to determine the trend of FDI over 10 successive fiscal years, a simple regression was run to predict FDI inflows in Nepal.

The simple regression analysis was represented as:

$$Y = a + bX$$

Where, Y= FDI inflows in million

X= Fiscal Year and

b= fluctuation in FDI inflows

Table 4.11: Regression between FDI inflows over 10 fiscal years from F/Y 2069/70 to F/Y 2078/79

Model	Model Summary					
	Constant	Regression Coefficient	T Value	Sig.	F value	Sig.
1	-2331750.8	4079963.0	-.57	0.58	0.34	0.58
R	.201 ^a					
R Square	.040					
Adjusted R Square	-.080					
a. Predictors: (Constant), Year						

Source: Field Survey, 2022

Regression Line: FDI inflows= -2331750.796 + 1172.099*2023

39,405.49 NRS. Million

The regression results displayed that the value of R-square is 0.40, which means the yearly variation in FDI inflows is by 40 %. It was also predicted that the inflows of FDI to be 39,405.49 NRS. Million in upcoming fiscal year 2023.

Table 4.12: Sector-Wise Classification of FDI Projects from (F/Y 2069/70) to (F/Y2078/79)

F/Y	FDI projects classified based on sectors								Total
	A & G	Energy	ICT	Infrastructure	Manufacturing	Mineral	Service	Tourism	
69/70	43	6	-	1	84	5	89	89	317
70/71	47	10	-	-	44	11	108	87	307
71/72	39	5	-	1	50	6	125	133	370
72/73	22	-	4	1	50	-	145	126	348
73/74	21	-	8	1	57	2	158	153	400
74/75	20	5	26	-	67	3	120	159	400
75/76	17	-	25	-	62	2	108	131	345
76/77	4	5	37	-	25	-	70	82	223
77/78	3	4	16	-	19	-	41	102	185
78/79	4	1	6	5	37	-	73	81	207
Total	220	36	122	9	495	29	1037	1143	3102
(%)	7	1	4	0.58	16	1	33	37	

Source: DOI, 2022

Classification of FDI projects based on sectors from (F/Y 2069/70) to (F/Y2078/79) demonstrated that the highest share of FDI was in energy (37%) followed by 34 % in Service, 16 % in Manufacturing, 7% in Agro and forestry-based, 4 % in ICT-based, and 1% each in Mineral and Energy-based sectors. While No FDI was seen in Infrastructure.

Table 4.13: Country-wise inflow of FDI

F/Y	Country-Wise FDI Projects												
	Chi na	Indi a	US A	S. Kor ea	Japa n	U K	Netherla nds	Banglad esh	Austra lia	Russ ia	Oth er	Tot al	
2069/ 70	97	41	24	23	12	10	10	2	8	3	87	317	
2070/ 71	120	22	28	22	15	12	1	6	4	3	74	307	
2071/ 72	154	25	33	33	13	11	7	10	5	6	73	370	
2072/ 73	128	25	40	55	18	12	7	8	6	3	46	348	
2073/ 74	184	41	39	15	12	9	9	8	6	3	74	400	
2074/ 75	162	53	35	15	17	12	6	5	5	2	88	400	
2075/ 76	166	50	16	20	18	6	8	2	2	2	55	345	
2076/ 77	174	16	4	3	3	4	2	2	2	0	13	223	
2077/ 78	140	9	7	4	1	5	3	0	1	0	15	185	
2078/ 79	158	11	11	1	1	4	1	1	3	0	16	207	
Total	148 3	293	237	191	110	85		54	44	42	22	541	310 2

Source: DOI, 2022

As of mid-July 2021, Nepal has received FDI from 55 different countries. Most of the FDI inflows are seen from China followed by India, USA, and Others. From fiscal year 2069/70 to 2078/79, China has invested in 1483 projects whereas the second bigger investor, India has invested in 293 projects.

Table 4.14: FDI Commitment vs. FDI inflows in Nrs. Million

Fiscal Year (F/Y)	FDI Commitment (Nrs. Million)	FDI Inflow (Nrs. Million)
2068/69	7138.31	9195.4
2069/70	19,818.73	9,081.9
2070/71	20132.42	3194.6
2071/72	67455.04	4382.6
2072/73	15254.33	5920.9
2073/74	15206.46	13505.9
2074/75	55760.48	17504.6
2075/76	25484.44	13065.2
2076/77	37805.83	19478.7
2077/78	32172.82	19512.7

Source: DOI, 2022

FDI is approved by mainly IBN and DoI based on sector of investment, amount of FDI and based on some other specific factors. However, FDI should come through the channel of NRB. The statistics showed that there is continuous huge gap between FDI commitment and actual inflows in each successive fiscal years from 2069/70 to 2077/78 except in F/Y 2068/69 in Nepal. The gap represents 56.59 % in average. The approval and investment do not match the FDI inflows. The net FDI inflows is the difference between total inflows of FDI and repatriation. This clearly denotes the lack of clear policies and procedures for reducing gap between the commitment and actual inflows of FDI in Nepal.

4.3 Analyze the Effect of Geographical Location on FDI inflows in Nepal

Investors want profits on investments. Dunning, 1998 highlighted that the locational advantage of different places influences the location decisions of the firm. Study shows that neighboring locations are not just rivals for inward flow of FDI but may also impact positively in a particular location.

Table 4.15: Simple Regression between Geographical Location and FDI inflow in Nepal

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.464 ^a	.215	.191	.53260	.215	9.046	1	33	.005	1.674
a. Predictors: (Constant), GL										
b. Dependent Variable: FDI										

Source: Field Survey, 2022

The regression result shows that the R square value is 0.215 which means 21.5 % change in FDI inflows in Nepal is caused by geographical location of the country. The simple regression model is fit for this study which is significant at 5% p value. Similarly, the Durbin Watson value (1.68 value less than 2 which is positively correlated means that geographical location positively affects the FDI inflows in Nepal.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.566	1	2.566	9.046	.005 ^b
	Residual	9.361	33	.284		
	Total	11.927	34			
a. Dependent Variable: FDI						
b. Predictors: (Constant), GL						

Source: Field Survey, 2022

In addition, the ANOVA result determines the significant relationship between geographical location and FDI inflows in Nepal as p-value is 0.05.

Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.817	.519		3.50	.001	.761	2.873		
	GL	.533	.177	.464	3.01	.005	.172	.893	1.00	1.0

a. Dependent Variable: FDI

Source: Field Survey, 2022

The simple regression equation for geographical location and FDI inflows is expressed as: $FDI\ inflows = 1.817 + (0.464 * Geographical\ Location)$. Here, the positive b value represents positive relationship between the dependent and independent variables.

Besides, the beta value 0.464 means that the change in the independent variable i.e., Geographical location by one unit will bring about change in the dependent variable i.e., FDI inflows by 0.464 unit. Similarly, the VIF value 1 represents that there is no problem with multicollinearity in this study. The VIF test suggest that if $VIF > 10$, multicollinearity exists and the regression model is found to be insignificant (Chatterjee, 2000). Since, the value of VIF is < 10 , it ascertained the reliability of the regression model.

The Simple regression analysis with FDI inflows as dependent variable and geographical location as independent variables shows positive and significant relationship with each other. The result reported in the regression result shows $R\ Square = 0.360$ and P is equal to 0.001. Therefore, the given hypothesis H_1 is accepted. i.e., a FDI inflow is affected by geographical location.

Experts, bureaucrats, contractor agencies moreover agreed that due to our geographical location, the production and transportation has been high, infrastructure development is in threat and costly. Lack of accessible and inadequate infrastructures have impaired smooth flow of FDI as investors wants return on investment. However, the key respondents expressed that Nepal can take location advantage of being

surrounded by two giant countries China and India if we could develop and implement adequate economic and political diplomacy.

They further add up that trade issues (market access, legal formalities) with our neighboring countries are not supportive for investment. India is not interested in the products of Chinese capital. It would be better if Nepal could attract Indian investors. They urged for promotion of investment in competitive sectors like: ecotourism, education, health tourism and energy and promote production for domestic consumption also.

4.4 Analyze Impact of Diplomatic Mission on FDI inflows in Nepal

Country's diplomacy plays major role to attract inward movement of FDI in any country. Diplomatic mission is always in the interest of nation. Its inception was from the time of very birth of nations and their interactions with outer world. The impact of geographical location on FDI inflows in Nepal is identified below through simple regression.

Table 4.16: Simple Regression between Diplomatic Mission and FDI inflows

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.520 ^a	.271	.249	.51338	.271	12.254	1	33	.001	1.744
a. Predictors: (Constant), DM										
b. Dependent Variable: FDI										

Source: Field Survey, 2022

The model summary shows that the value of R square 0.249 determines the independent variable diplomatic mission causes 24.9% changes in the inflows of FDI in Nepal. The Durbin Watson value of 1.774 also depicts the positive correlation between diplomatic mission and FDI inflows in Nepal.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.230	1	3.230	12.254	.001 ^b
	Residual	8.697	33	.264		
	Total	11.927	34			
a. Dependent Variable: FDI						
b. Predictors: (Constant), DM						

Source: Field Survey, 2022

Furthermore, ANOVA Table justify that there is a significant relationship between diplomatic mission and FDI inflows in Nepal (p value 0.01).

Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.645	.496		3.32	.002	.636	2.654		
	DM	.596	.170	.520	3.50	.001	.250	.942	1.00	1.0
a. Dependent Variable: FDI										

Source: Field Survey, 2022

Likewise, the regression line is expressed as: $FDI\ inflows = 1.645 + (0.520 * Diplomatic\ Mission)$. The coefficient result indicates that the beta value 0.520 means the change in independent variable i.e., diplomatic mission by one unit will bring about the change in the dependent variable i.e., FDI inflows by 0.520 units. Finally. The positive beta value depicts the positive relationship between diplomatic mission and FDI inflows in Nepal.

The simple regression analysis result of FDI inflows as dependent variable and diplomatic mission as an independent variable shows positive and significant relationship with each other. The result reported in the regression result are R Square=0.271 and P is equal to 0.001. Therefore, the given hypothesis H₁ is accepted. i.e., FDI inflows is affected by diplomatic mission in Nepal.

From the qualitative perspective, the experts, contractor agencies, bureaucrats and foreign investors viewed that we still lack conducive business environment for investment though there are frequent dialogue and negotiation at the political and executive level for trade liberalization, facilitations on registration, approval, investment, reinvestment and expansion of projects and repatriation of profits and visa process and Inter and Intra agency network, coordination, collaboration, and communication. They also expressed that bilateral treaties, multilateral conventions, Member country of multilateral organization and trade agreements have promoted FDI. However, it lacks political support and commitment for investigating and promoting potential areas of investments, on time policy revision and effective implementation of one door one window policy. Besides, the long and hectic legal and bureaucratic process posed hurdles for investments and have demotivated foreign investors.

4.5 Findings

The major findings of the study are presented as follows:

-) The trend shows the insignificant growth of FDI inflows over a decade long period of time from fiscal year 2069/70 to fiscal year 2078/79 and yearly variation in FDI inflows was by 40%.
-) The observed maximum volume of FDI inflows is found to be in F/Y 2071/72 which comprised of Nrs. 67,455.04 million.
-) It is also predicted that the inflows of FDI to be 39,405.49 NRS. Million in upcoming fiscal year 2023 which is 36,593 Nrs. Million lower than previous year.
-) The large share of investment is in energy Sector (37%) followed by 34 % in Service, 16 % in Manufacturing, 7 % in Agriculture and forestry-based, 4 % in ICT-based, and 1% each in Mineral and Energy-based sectors. While No FDI was seen in Infrastructure.

-) Country wise FDI inflows data shows that most of the FDI inflows are seen from China followed by India, USA, and Others.
-) From fiscal year 2069/70 to 2078/79, China has invested in 1483 projects whereas the second bigger investor, India has invested in 293 projects.
-) There is continuous huge gap between FDI commitment and actual inflows in each successive fiscal years from 2069/70 to 2077/78 except in F/Y 2068/69 in Nepal. The gap represents 56.59 % in average.
-) Study shows the lack of clear policies and procedures for reducing gap between the commitment and actual inflows of FDI in Nepal.
-) There is significant positive relationship between geographical location and FDI inflows in Nepal. 21.5 % change in FDI inflows in Nepal is caused by geographical location of the country. The simple regression model is fit for this study which is identified by the p value 0.05.
-) Diplomatic mission causes 24.9% changes in the inflows of FDI in Nepal which is positive as well as significant.
-) Experts also opined that same finding as quantitative analysis that means geographical location affects FDI inflows in Nepal.
-) Experts opined that the diplomatic mission of Nepal should focus on promoting potential areas of investments like production of low weight high value-added products like galiacha, ginger, pashmina, alaichi, hydropower etc. and development of country as an educational hub and tourist destination.
-) They also viewed that development and implementation of business ethics has been imperative to increase security of investment.
-) The qualitative data has provided crucial information regarding not only the factors affecting FDI inflows in Nepal but also the ways to tackle those factors in the coming days. Most of the factors are associated with long, hectic and hassle bureaucratic and legal process, reduced trust and investment climate and increased production, transaction and transportation cost. Time has come to promote and attract foreign investment in the production of low weighted and high value laden-products. Similarly, promotion should be oriented towards health, education, energy, minerals and so on.
-) Furthermore, experts opined that FDI is contributing in the economic growth of Nepal to some extent but it is not as expected although the possibility is

high. We are not able to attract and grab its benefit. There is a huge gap between commitment and actual inflow. FDI is not attracted in manufacturing and production which contributes significantly in economic growth. Nepal is just ahead of Bhutan and Afghanistan in FDI position among south Asian countries.

-) From the qualitative perspective, Majority of the respondents viewed that lack of adequate infrastructure, increased cost of doing business, production of goods and services, increased transaction cost and time, bureaucratic hassle as a supplementary has broadly demotivated the intention of foreign investors to invest into the country.
-) The respondents viewed that we have no good business environment. The present diplomatic mission on economic development is not sufficient to attract stipulated amount of FDI inflows in Nepal. We are far behind the diplomatic proficiency in order to lobby for trade liberalization, technology transfer, market access, investment promotion, dissemination of potential areas of investments, capacity development of existing human labor and facilitate on investment decisions to foreign investors.
-) The view of the key respondents coincides with quantitative data regarding impact of geographical location and diplomatic mission on FDI inflows in Nepal. In the present context of globalization, countries with stronger economic diplomacy are must for economic growth. Diplomatic mission has a key role to affect positive inflow of FDI in Nepal but most of the missions are guided to other nations' interests.

4.6 Discussion

Nepal is least developed and landlocked country. It lacks resources for economic growth and development. Without investment economic development is impossible within the country. As Nepal is planning to graduate in developing country till 2026 A.D. and targeting to achieve the status of sustainable development goals (SDGs) by 2030 A.D., we should invest largely in agriculture, industry, hydropower, manufacturing and connectivity. The necessities of FDI are increasing day after day for mobilization of resources, employment generation and earning of foreign currency but Nepal has not been able to attract FDI as stipulated. There is still huge resource

gap. Similarly, FDI is crucial to realize the slogan of “Prosperous Nepal and Happy Nepali”. Nowadays, a slogan is developed that is “No aid but trade and investment”. In order to reduce the burden of foreign aid in the long run, FDI is must for Nepal. FDI can be a source to attract private capital, knowledge, skills and technology and can be a strong basis for strengthening institutional capacities, regulatory reform and creating conducive business environment, for promoting internal production capacity and reduce trade deficiency

The study aimed to analyze the trend of FDI inflows and to examine the extent of relationship between dependent variable i.e., FDI and independent variable that are Geographical Location and Diplomatic Mission. In this part, the result obtained are thoroughly explained.

FDI is continuing to inflow in Nepal. However, the trend shows the insignificant flow of FDI within the country. The FDI inflows seems sharp rise and fall. It is also predicted that the inflows of FDI to be 39,405.49 NRS. Million in upcoming fiscal year 2023 which is 36,593 Nrs. Million lower than previous year. According to the report of (UNCTAD, 2021), FDI inflows to South Asia increased by 20.91 % in 2020. However, Except India, FDI inflows in all SAARC Countries had decreased. In India FDI increased by 26.71 % while FDI inflows in Nepal deceased by 31.89 % from \$ 185 million to \$ 126 million in 2020. India remained the largest country to receive FDI inflows up to \$ 64062 million in 2020 which covers 91.97 %. Bangladesh, Pakistan, Sri Lanka, Maldives, Nepal, Afghanistan and Bhutan cover 3.68 %, 3.302%, 0.623%, 0.50% 0.181%, 0.018% and 0.004 % respectively (Mainali, 2021). It was surprising that when COVID-19 impacted FDI inflow in the world, China and India were attracting FDI inflows by 6% and 26.71% respectively.

Industrialization process in Nepal started after 1936 with the initiative of Indian capital, management and labor (Parajuli, 2021). With the establishment of Biratnagar Jute Mill in 1936, Nepal opened up way for industrial movement. Similarly, the company Act, 1936 largely encouraged people to invest in the industries. This law had facilitated for importing machines and essential raw materials from foreign countries free of custom duty (Kharel and Kharel, 2019). However, there was no clear FDI policy till 1981.

During 1980s Nepalese economy was suffering from various macro-economic crisis such as negative balance of payment, high rate of inflation, increased debt burden, budget deficit etc. which caused low attraction of FDI. Along with this, shortage of electricity, roads and communication facilities were prominent to discourage foreign investors. There was only 49 FDI enterprises in Nepal before 1981. There was only Indian investment in Nepal before legislation of any policies related to FDI.

From the very beginning of the promulgation constitution of Nepal, it has been prioritized to pursue a policy of mobilizing the natural resources and heritage of the country in a manner, which might be useful and beneficial to the interest of the nation. The economic liberalization, open political environment and economic reform measures after 1990s, introduction of FITTA & One Door One Window, 1992 and Industrial Enterprise Act, 1992 has led to the expansion of economic activities. In these acts, various facilities like repatriation and visa, convertible foreign exchange facilities, land facilities and various tax incentives were offered to foreign investors which provided positive impact on FDI inflows. However, the development was not as expected due to decade long conflict.

Public-Private Partnership and Investment Act (PPPIA)-2019, Foreign Investment and Technology Transfer Act (FITTA) and Special Economic Zone Act were other considerable efforts of GoN to encourage more FDI. These acts are made more investment friendly, flexible and relevant through necessary reforms and revisions. Legal and administrative facilitation through one place by the coordination of various agencies such as NRB, Department of Immigration, Office of the Company Registrar, Inland Revenue Office, DOI, etc. is the remarkable effort of GoN to attract foreign investors. However, the realization of FDI remains poor compared to the commitment and interest shown.

Although, Necessary homework has been carried out to deliver on the intents stated and investment agreed through the MOU and the like, Nepal has not been competent to attract investment in large and mega projects. Concerned authorities also accept this bitter truth. The FDI in agriculture and forestry, infrastructure, manufacturing, ICT and energy sectors are far less than tourism and service sectors. (Neupane, 2020) has drawn the attention by questioning the impact and benefit of FDI in the major areas. Energy sector has attracted many foreign investors but the study on influences and benefits provided to the people is still lacking. FDI inflows have been mainly

concentrated in few sectors like energy, service and tourism. Effective marketing is needed to retain of foreign investors in diversified sectors.

The result of this study shows that FDI inflows in Nepal is affected by geographical location and diplomatic mission. This study selected majorly geographical location and diplomatic mission as an independent variable to examine their individual effects on FDI inflows in Nepal using simple regression. The result revealed that geographical location has not affected positively in greater inflow of FDI in Nepal. While the diplomatic mission has affected positively but has not been sufficient to attract increased inward flow of FDI.

The nearest sea, Bay of Bangal is 1127 km far from Nepal. According to the report of (United Nation, 2018), ‘‘Most of the LLDCs possessed long and excessive distance from seaport. Kazakhstan consists of the longest distances (3,750km) from the nearest seacoast followed by Afghanistan, Chad, Niger, Zambia and Zimbabwe with distances from the nearest seacoast in excess of 2,000 km. It denotes that the transit time for LLDCs is too time consuming resulted due to remoteness, difficult terrain, road and railway conditions and inefficiency of transit transport’’.

(Gallupt et. al., 1999) opined that Geography has been much neglected in the past decade of formal econometric studies of cross-country performance. However, the neglect of geography was not always the case. Adam Smith in *The Wealth of Nations* had already put great stress on geography as a determinant of economic development. As the result of this study demonstrates that diplomatic mission of Nepal’s has affected positively in FDI inflow but, it is not enough. This result is supported by (Kharel&Upadhyaya, 2021). According to them, ‘‘Nepal is not being capable to obtain adequate economic benefits because of weak economy and economic policy’’. (Rana& Chatterjee, 2011) further elaborates that economic diplomacy determines the country’s brand and reputation internationally through trade and investments.

Nepal should promote for creating conducive investment climate and should focus on improving global competitive indexes by facilitating private investment and managing PPP projects. But the diplomatic agencies are not able to promote economic diplomacy and trade mission and potential investors are not aware about investment opportunity in Nepal.

Nepal has the third most favorable business climate in South Asia (Doing Business, 2020), 5th most competitive trade logistics performer in South Asia (Logistic Performance Indicator, 2018) and 4th most competitive economy in South Asia (Global Competitiveness Index, 2019). At present, among 190 countries in the world, Nepal has been upgraded from 110th to 94th position (scoring 63.2) in the ease of doing business index. It denotes the positive signs for attraction of more FDI within the country. As per the report Nepal has improved in certain indicators like securing construction permits, accessing electricity trading across borders and securing contract enforcement. Government of Nepal is continuously trying effort to reduce the gap between the commitment and actual inflows. There is also provision of online service related to the investment process and visa process. Further, GoN is working on providing e-service related to repatriation of profits.

A number of studies have been conducted to investigate the determinants of FDI to different regions- Asia, Southeast Asia, Central and Eastern Europe, Eurasian transition economics, Southeast Europe. (Mamasalaev, 2021) Identified statistically significant impact of market size, trade openness, institutional variables and corporate profit tax on FDI inflows in Asian land locked countries whereas other variables, namely inflation, human capital, control of corruption and ease of doing business are found to have no impact on FDI inflows in Asian landlocked countries. The quantitative data provided the crucial opinions regarding the impact of Geographical location and diplomatic mission of FDI inflows in Nepal. Much of the research articles are concentrated on macroeconomic determinants of FDI inflows like market size, infrastructure, wage rates, trade openness, fiscal incentives, business or investment climate and so on. (Gurung, 2010) says the major challenge of FDI implementation in Nepal are the lack of direct access to the seaport and difficulty in transportation.

GoN is also showing keenness to attract FDI by improving the business climate and administrative procedures. Nepal has entertained trade openness by being the member countries of WTO and other privileged international organizations and signing agreements and treaties. Approval of FDI within seven days of application, one stop service center, decision within fifteen days for profit repatriation process, non-discrimination to any foreign investors, non-nationalization, revision on minimum investment criteria etc. are the major reform to attract foreign investors. In addition,

the approval of SEZ with the provision of free custom duties on raw materials, simple and easy registration processes, availability of electricity, prohibition of labor strikes and more incentives and attraction are other plus point.

Although, Nepal has been successful in overcoming from the problem of power shortage, the problems like poor infrastructure, and lack of adequate diplomacy are yet the dominant factors which is impairing the attraction of FDI within the country. However, Nepal is stepping ahead to created conducive FDI environment in south Asia and in the world.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

FDI is crucial in Nepal because it generates employment opportunity, utilizes the unexplored natural resources, facilitates in transfer of technology, makes country's economy dynamic and competitive through the production and movement of goods and services and it raises the economic growth rate of Nepal. Shortage of capital is one of the main problems of most developing countries which is reflected their saving to investment and import to export gaps. In order to bridge gap, they need foreign capital for their economic growth

FDI has been inflowed in Nepal over many years. Government also has given due priority for attracting greater volume of FDI inflows in Nepal however, the target is not achieved as expected. Many factors are associated with FDI inflows as Nepal is geographically landlocked and considered as least developed country in the world. Therefore, this study aimed to analyze trends of FDI inflow and to examine to what extent the geographical location and diplomatic relation are affecting FDI inflows in Nepal.

The resource gap has always been a major problem for least developed countries like Nepal. In spite of opportunities for investment in Nepal, public investment is low and the country has been unable to attract potential private investors. One of the sources of bridging financing gap is FDI.

The regression result revealed that FDI inflow in Nepal is not significant. Similarly, it is significantly affected by the geographical location and diplomatic mission. Nepal being landlocked country in the world, its location has impact on FDI inflows. Similarly, country's diplomatic mission also affects FDI inflows. We have to develop diplomatic mission that favors FDI inflows into the country. The geographical location Factors like excessive dependency on trade with immediate neighboring countries, increase time and cost for transportation, Narrow domestic market, lack of skilled manpower, inadequate infrastructures, uneven geopolitical relationship and frequent border issues with neighboring countries and investment insecurity and

diplomatic mission like trade negotiation, market access, facilitation in investment, promotion of potential areas of investment, practical implementation of one door one window policy, implementation of treaties, agreements and conventions, inter and intra agencies network and coordination, political support and commitment, revision on existing FDI policies and provisions of investment security have affected FDI inflows in Nepal.

In spite of attractive incentives, policy reforms, economic liberalization, the FDI inflow in Nepal is not encouraging. There is need of robust revision on the existing policies regarding FDI. We are not able to create conducive business environment for foreign investors in comparison to neighborhood countries. In one hand the geographical Location is not supportive and, in another hand, the diplomatic mission of Nepal is not sufficient to encourage FDI in Nepal. So, in-depth researches and studies should be conducted to analyze the environment and factors affecting FDI inflows in Nepal.

5.2 Conclusion

The magnitude of benefit of FDI differs from country to country and depends upon the host country and context. The countries with weak legal and environmental framework may not be economically benefitted through financially strong foreign enterprises. The limitation of previous study is that they did not focus on geographical location and diplomatic mission on FDI inflow within a country. The FDI is crucial for developing and landlocked countries like Nepal as country's economy is stepping forward. We have high potentiality to empower foreign investors because of the political willingness to attract FDI in recent days. However, the GoN must focus on development of sophisticated infrastructure, transportation facilities, and support through financial incentives, auto approval service, dialogue and negotiation for dispute resolution, promotion for potential areas of investment, inter- and intra-agency network and coordination, and revision on existing FDI policies of Nepal.

The inflow of FDI is directly linked with geographical location and diplomatic mission. From this study, it is also cleared that Geographic Location and Diplomatic Mission are also potential determinants of FDI. Nepal should promote diplomatic mission to attract more FDI in geographically suitable products and projects like energy, medicinal herbs, health, education, tourism, service, mining, minerals, ICT

and infrastructure. Last but not the least, the effort should be given to reduce the gap between commitment and actual inflows of FDI in Nepal.

We cannot deny the fact that Nepal is a landlocked country and it is unchangeable. Geography matters considerably for Nepal besides other factors. The extent of impact of geographical location should not be exaggerated but the present study revealed that it has affected negatively in FDI inflow. It is imperative to consider geographical location and should be explicitly acknowledged in the policy agenda relating to FDI and should obtain necessary policy response. The adequate solutions to tackle this problem could be the improvement in land transport infrastructure and encouraging investors to operate and develop industries and skills that are not sensitive to distance and transport costs. The realized potential areas of investment like IT, tourism, education and health should be promoted to reduce the negative impact of FDI in Nepal.

No country in the world can remain in isolation and Nepal cannot be the exceptional case. In the present context, diplomacy has been the key for the economic upliftment for Nepal. The present economic condition of Nepal demands adequate political and economic diplomacy with the neighboring and third countries of the world to take part in the world economy and benefit from it. Nepal's diplomatic mission should be concentrated on encouraging foreign investors to develop firms and industries and skills that are not sensitive to distance and transportation cost. The geographical location of can be a boon for our country if we have powerful diplomatic skills which is enhanced by negotiating, facilitation, coordination, collaboration, research and innovations in the areas of FDI.

5.3 Recommendation

FDI inflows in Nepal is vital to realize the slogan "Prosperous Nepal and Happy Nepali" However, it is significantly and positively affected by geographical location and diplomatic mission of Nepal. The main policy conclusion that can be drawn from the results are:

-) Public and private participation should be promoted to facilitate for investment purpose.
-) We have to work more on reducing the gap between the commitment and the actual investment through visa facilitation and investment facilitation.

-) The promotion for potential areas of investment should be robustly carried out through inter and intra agency network, collaboration and coordination.
-) Special attention should be given to reduce the production, transaction and transportation time and costs.
-) As FDI inflows is also affected by geographical location and diplomatic mission, Government of Nepal should make necessary provisions for production of high value low weighted products like Pashmina, fruits, medicinal herbs etc. and should make arrangements for political and economic diplomacy for trade liberalization, market access and expansion and capacity development of labor market with neighboring and other countries.
-) Investment cycle should be made fully digitized and paper less. Still there is no decision of government regarding auto approval of projects based on sectors and amount of investment.
-) Government should rethink about the provision of industries or business restricted for foreign investment for transfer of advanced technology, capital and management practices.
-) Should promote for reinvestment and expansion of projects, retain and regain foreign investors through efficient service and facilitation rather than repatriation of profits.
-) Governments support and commitment is must and should attract, promote and facilitate the foreign investors in the potential areas of investment in the interest of nation.
-) As a suggestion, further study should be focused on examining impacts of geographical location and diplomatic mission on different sectors like education, health, energy, Agriculture, infrastructure, construction etc. in Nepal.

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APPENDIX-I

Questionnaire for Respondents

The Impact of Government's Policies on FDI Inflows in Nepal

Respected Sir/Madam,

My name is Hira Shrestha, an M. Phil scholar in Central Department of Public Administration, Balkhu, Kathmandu. As a researcher, I kindly request you to unanimously participate in the survey and provide your crucial ideas and knowledge on the questions enlisted in the form as your opinion can be a strong basis for formulating effective government's FDI policies. I would also like to assure you that the information provided by you will be kept confidential and will be used only for an academic purpose.

Thank you for your kind co-operation.

Respondents General Information

Name

Gender

Male

Female

Other

Education

Bachelor

Master

M.Phil.

Ph.D.

Age

Below 35

35-40

40-45

45-50

Above 50

Profession

Civil Servant

Professor

Entrepreneur

Specialist

Politician

Other

Name of Organization

Date: -----

Designation/Job Position

Years of Work Experience (in Years)

Less than 5

5-10

10-15

15-20

More than 20

Kindly choose the response that you think is the most appropriate to each of the following statements. The explanation of the points is as follows: 1=Strongly disagree, 2=Disagree, 3=Agree, 4= Strongly Agree & 5=Don't know.

FDI Inflows (Dependent Variable)	SD	D	A	SA	Don't Know
It generates employment opportunities.					
It utilizes the unexplored natural resources.					
It facilitates in transfer of technology, capitals, management practices and culture.					
It makes country's economy dynamic and competitive through production and movement of goods and services. .					
It raises the economic growth rate of Nepal.					

Geographical Location (Independent Variable)	SD	D	A	SA	Don't Know
Excessive dependency on trade with immediate neighboring countries has demotivated foreign investors to invest into the country.					
Increased time and cost for transportation is hindering FDI in Nepal.					
Narrow domestic market has shrunk the volume of FDI inflows in Nepal.					
Uneven Geo-political relationship with neighboring countries has severely impaired FDI inflows Nepal.					
Lack of proper and adequate infrastructures are another main reason for low flow of FDI.					
Insecurity of investments is not encouraging new and old foreign investors.					
Frequent border disputes and blockade issues have posed threats for FDI					

Diplomatic Mission (Independent Variable)	SD	D	A	SA	Don't Know
Frequent dialogue and negotiation at the political and executive level for trade liberalization has promoted for greater inflow of FDI in Nepal.					
Progress in roads, airways, tunnel and transmission lines construction have expanded FDI volumes.					
Inter and Intra agency network, coordination, collaboration, and communication have created conducive environment for greater inflows of FDI.					
Facilitations on registration, approval, investment, reinvestment and expansion of projects and repatriation of profits and visa process has encouraged the foreign investors.					
Financial incentives and tax holidays have encouraged the high inflow of FDI.					
Bilateral treaties, multilateral conventions, Member country of multilateral organization and trade agreements have promoted FDI in Nepal.					
One door one window, one step policy is practically implemented and sufficiently facilitated for FDI inflow in Nepal.					
Promotion on potential areas of investments like energy, manufacturing, tourism, information technology etc., has attracted more FDI.					
We have higher political support and commitment for creating favorable environment for FDI inflows.					
Revision on minimum investment criteria, fair and equal treatment among the investors and other policy reforms have bring positive impact on FDI inflows.					
The existing human resource and labor market is sufficient to attract higher inflow of FDI.					

To what extent FDI is contributing in economic growth of Nepal?

How would you perceive the necessity of FDI for the economic development in the long run of Nepal?

APPENDIX-II

Questions for Foreign Investors

The Impact of Government's Policies on FDI Inflows in Nepal

Respected Sir/Madam,

My name is Hira Shrestha, an M. Phil scholar in Central Department of Public Administration, Balkhu, Kathmandu. As a researcher, I kindly request you to unanimously participate in the interview and provide your crucial ideas and knowledge on the questions enlisted in the form as your opinion can be a strong basis for formulating effective government's FDI policies. I would also like to assure you that the information provided by you will be kept confidential and will be used only for an academic purpose.

Thank you for your kind co-operation.

Name:

Nationality:

Gender:

Male

Female

Other

Age

Below 35

35-40

40-45

45-50

Above 50

Education

Under graduate

Graduate

Post Graduate

Name of Degree:

Name of Company:

Date of Company Registered in Nepal:

1. From which source you get to know about Nepal?
-

2. What attracted you the most to invest in Nepal?

3. What kind problems did you face while making investment in Nepal?

4. What would you like to suggest to improve the investment policy of Nepal?

5. Would you like to invest in Nepal in the long run?

APPENDIX-III

Question for Experts/Specialists/Government Agencies/Contractor Agencies

The Impact of Government's Policies on FDI Inflows in Nepal

Respected Sir/Madam,

My name is Hira Shrestha, an M. Phil scholar in Central Department of Public Administration, Balkhu, Kathmandu. As a researcher, I kindly request you to unanimously participate in the interview and provide your crucial ideas and knowledge on the questions enlisted in the form as your opinion can be a strong basis for formulating effective government's FDI policies. I would also like to assure you that the information provided by you will be kept confidential and will be used only for an academic purpose.

Thank you for your kind co-operation.

Name

Gender

Age

Profession

Area of Specialization

Name of Organization

Years of Work Experience

To what extent geographical location has affected FDI inflows in Nepal?

To what extent diplomatic mission of Nepal has affected attraction of FDI in Nepal?

To what extent FDI is contributing in economic growth of Nepal?

How would you perceive the necessity of FDI for the economic development in the long run of Nepal?

Table 1: Trends of FDI inflows in Nepal from F/Y 2051-F/Y 2078

S. N	F/Y	No. of Projects	Total Project Cost (Nrs. Million)	FDI (Nrs. Million)	Employment Generated
1	2050/51	38	3,733.23	1,378.76	4,734
2	2051/52	19	1,627.28	477.59	2,386
3	2052/53	47	10,047.47	2,219.86	8,032
4	2053/54	77	8,559.25	2,395.54	9,347
5	2054/55	77	5,572.60	2,000.28	4,336
6	2055/56	50	5,324.42	1,666.42	2,146
7	2056/57	71	2,669.09	1,417.61	4,703
8	2057/58	96	7,917.62	3,002.56	6,880
9	2058/59	77	3,318.53	1,209.65	3,731
10	2059/60	74	4,921.82	1,793.77	3,572
11	2060/61	78	4,323.74	2,764.80	2,154
12	2061/62	63	1,796.10	1,635.77	5,559
13	2062/63	116	4,121.08	2,606.31	7,358
14	2063/64	188	3,425.57	3,185.98	7,389
15	2064/65	213	20,406.38	9,812.60	10,709
16	2065/66	231	9,417.89	6,255.09	11,108
17	2066/67	171	13,953.78	9,100.00	7,848
18	2067/68	210	11,252.69	10,053.21	10,902
19	2068/69	226	11,909.82	7,138.31	9,035
20	2069/70	317	51,990.78	19,818.73	16,569
21	2070/71	307	40,737.27	20,132.42	11,790
22	2071/72	370	81,370.60	67,455.04	13,167
23	2072/73	348	20,543.89	15,254.33	11,663
24	2073/74	400	17,123.51	15,206.46	11,842
25	2074/75	400	61,349.11	55,760.48	13,940
26	2075/76	345	31,868.05	25,484.44	14,594
27	2076/77	223	50,749.34	37,805.83	10,839
28	2077/78	185	49,291.58	32,172.82	5,943
29	2078/79 (Till Jestha)	207	44,722.01	40,498.20	12,201

Source: Department of Industry, 2022

Table 2: Trend of Industries Establishment with FDI

Fiscal year	2069/70	2070/71	2071/72	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78	2078/79 Till Jestha
Industries 100% FDI	205	215	268	232	277	281	212	144	52	49
Domes tic and Foreig n JV	60	44	59	39	61	74	60	14	14	9

Source: Department of Industry, 2022

Table 3: Contribution of FDI in GDP formation in Nepal from B.S. (1990 to 2020)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP %	0.548	0.436	0.424	0.335	0.134	0.213	0.432	0.677	0.206	0.543	0.379

Source: World Bank, 2022