TRENDS, STRUCTURE AND PROSPECTS OF FOREIGN DIRECTINVESTMENT IN NEPAL

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LETTER OF RECOMMENDATION

This thesis entitled "TREND, STRUCTURE AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL has been prepared by Kamala Subedi under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements of the Degree of MASTER OF ARTS in ECONOMICS.

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APPROVAL SHEET

We certify that this thesis entitled "TREND, STRUCTURE AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL submitted by Kamala Subedi to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirement for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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I am alone responsible for any mistakes and errors occurred in preparing this thesis.

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
APEC	Association of Petroleum Exporting Countries
ASEAN	Association for South East Asian Nations
BITS	Bilateral Investment Treaties
BOI	Board of Investment
CBS	Central Bureaus of statistics
CEDA	Centre for Economic Development and Administration
CEDECON	Central Department of Economics
DOI	Department of Industry
ESAP	Enhanced Structural Adjustment Program
FDI	Foreign Direct Investment
FI	Foreign Investment
FITTA	Foreign Investment and Technology Transfer Act
FNCCI	Federation of Nepalese Chamber of Commerce and Industry
FNM	First Ninth Month
FY	Fiscal Year
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HDI	Human Development Index
HDR	Human Development Report
IMF	International Monetary Fund
Ktm	Kathmandu
LDCs	Least Developed Countries
M.A.	Master of Arts
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency

MNCs	Multinational Companies
MOF	Ministry of Finance
MOI	Ministry of Industry
MW	Mega Watt
NEA	Nepal Electricity Authority
NIDC	Nepal Industrial Development Corporation
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRN	Non- resident Nepali
OECD	Organization of Economic Co-operation and Development
R&D	Research and Development
RNAC	Royal Nepal Airlines Corporation
Rs.	Rupees
SAARC	South Asian Association for Regional Co-operation
SAFTA	South Asian Free Trade Area
SAP	Structural Adjustment Program
T.U.	Tribhuvan University
TNC	Transnational Co-operations
TRIPS	Trade-Related intellectual property Rights
UK	United Kingdom
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNHDR	United Nations Human Development Report
UNO	United Nations Development Program
USA	United States of America
WTO	World Trade Organization
WB	World Bank

CHAPTER I
INTRODUCTION

1.1. Background

Foreign investment is an important form of foreign capital flowing to both the developed as well as developing countries of the world in the form of direct investment or portfolio investment. Most economic theorists and development practitioners accept that external capital is necessary for accelerating growth and industrialization. However, FDI is not above dispute. Despite all controversies, FDI has been a major economic policy issue for the great majority of countries around the world. The increasing mobility of international firms and the gradual elimination of barriers to global capital flows have stimulated competition among governments to attract FDI. FDI per se is one manifestation of globalization and the world economy over the past two decades.

FDI is identified as a medium to acquire skills, knowledge, technologies and to internationalize business and at the same time to reduce debts. McKern (1996), Kathuria (1998, 2000 and 2001) and Noorbakhsh et al., (2001) believe that FDI does not take place automatically and, therefore, inflow of FDI should be encouraged.

FDI, also known as (international) direct investment, forms a part of the capital account of the balance of payments. 'Direct investment' is defined as an investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in an economy other than that of the investor where the purpose is to have an 'effective voice' in the management of the enterprise. According to the International Monetary Fund (IMF), FDI is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy.

FDI has been considered as a medium for acquiring skills, technology, organizational and managerial expertise. Unfortunately, the recent bulk of the inflow has been directed to a limited number of countries. Masud et al. (2009) claims there are four elements that encourage the inflow of FDI to the host country: investment, origin of foreign investor, economic sectors and investment income generated.

The openness of the economy with the rest of the world has significant effect on liberalization in terms of trade. The open economy encourages more confident investment. Other than trade liberalization, financial liberalization is also important to sustain capital inflows.

Countries welcome FDI for its various potential benefits. These include employment creation, capital accumulation, transfer of technology, improved provision of services and increased competition (UNCTAD, 2006:1). Contrary to such positive views, skeptical views run against FDI. Skepticism suggests inward FDI can also impose costs in the form of displacement of local firms and workers and possible monopolistic practices, and there can be valid economic rationales for restricting inward FDI (ibid: 1). Staying away from economic rationales, political and social views follow a high-handed approach in denouncing FDI. There may also be non-economic reasons for limiting foreign ownership and control, relating to national security or economic nationalism (ibid: 1).

Current financial and economic crises erupting since 2008 have downplayed the agenda of investment attraction through liberalization and protection of foreign investors. In this respect, Nepalese case *per se* is unique as its agenda for economic transformation has been shadowed in a hazy and hostile political situation. This process emerged when the country was facing years of internal war, which shattered the goal of inviting FDI. The situation is further complicated by protracted transition in which two major tasks-- constitution-making and peace process--are not concluded yet.

Nonetheless, FDI is an important indicator to boost economic growth of Nepal. At a time when the country is striving for strengthening its infant republican democratic system, political and economic agenda should go hand-in-hand. Whatever the nature or size of system the country is going to switch over to, the future state will have to ultimately deliver in economic terms to common people. If the peace dividend is delivered, the system-in-design will sustain and vice versa. Keeping it in mind, sound preparedness is a must for economic prosperity. Alleviating poverty in a period of ten years in Nepal may require at least 8 per cent of sustained growth in GDP. On top, growth has to be converted into inclusive growth as long as possible. Such quantum and nature of growth is attainable only when FDI boosted investment will come true. It is an irony that the size of FDI to Nepal has been meager for a long time. In contrast, China and India have been enjoying one of the highest chunks of global FDI. Now the time has come for Nepal to make an honest introspection and retrospection so that a set of prudent and pragmatic measures could be designed accordingly at both policy and operational levels in the times ahead. (Bista, 2005).

1.2. Statement of the Problem

As political stability and peace are the sine quanon for attracting greater volume of FDI in Nepal, Nepalese economy has suffered from serious structural constraints accompanied by internal conflict for a period of ten years. Economy is characterized by landlocked position, rugged topography with limited cropland, poor resource base, a high extent of poverty and rampant corruption. Similarly, Nepalese economy has suffered from limited resource endowment, underdeveloped infrastructure, technical knowhow, unskilled manpower, improper planning, ineffective implementation of policies, etc.

Nepalese economy is passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation (Dahal et al. 2000). Macroeconomic indicators exhibit that Nepal's economic status is not satisfactory in terms of GNI per capita, commercial viability of natural resources, the extent of poverty and human development prospects. Nepal is bound with traditional society where people almost depend upon the old primary and traditional industries having inadequate modernized tools and technology.

Foreign investors have vented dissatisfaction with the frequent changes of the officials of the concerned offices. Government has not been able to create favorable market access to neighboring countries for the products of foreign investment projects through trade agreements. Private sector has no confidence with the government and has low expectations regarding the value of promised incentives embodied in the policies. This sector has also reservation about government control. Because of the lengthy approval process and incentive system, Nepal has been regarded to the country with the poorest level of investment climate.

With the liberalization and privatization policies undertaken in the 1990s, Nepal should have been able to attract more FDI and private capital flows. But present scenario reveals that the ability of Nepal to attract private capital and FDI has been less than expected. Despite the ample facilities and liberal legal provisions, the disappointing flow of FDI to Nepal is disappointing.

So, it is desirable to study the trend, nature and extent of FDI in Nepal in the backdrop of policies and facilities and assess the prospects of FDI in Nepal.

1.3. Objectives of the Study

This research paper aims to meet the following objectives:

a. To examine the trend and structure of FDI in Nepal.
b. To review the policy framework of FDI in Nepal.
c. To assess the major challenges and prospects of FDI in Nepal.

1.4. Significance of the Study

FDI has been an important avenue of private external finance for developing countries like Nepal. It differs from other types of external private capital flows in that it is motivated to a large extent by the investors' long-term goal of profit making in production activities that they directly control. FDI adds to investible resources and capital formation; and it is also a mechanism of transferring production technology, skills, innovative capacity, and organizational and managerial practices between locations, as well as of accessing international marketing networks.

As Nepal is wedged between two economically powerful nations China and India, there is high possibility of attracting FDI towards this country. For this, peace, political stability, good governance and suitable policies are crucial for creating favorable investment climate to attract the larger volume of FDI into this country. Inflow of foreign capital and skill through the foreign private investment is necessary, if Nepal's effort towards economic growth and development is to be made easier and faster. The inflow of foreign investment in Nepal is less than impressive. So, a study on the trend, structure, challenges and prospects of FDI in Nepal would be valuable to get insight of present situation and decide about the future course of action.

1.5. Limitations of the Study

Due to time and resource constraints, primary survey of FDI has not been conducted. So, this study has been mainly based on secondary data to assess the policy framework of FDI in Nepal and analyze trend, structure and the prospects of FDI of Nepal. The study is based on data of 22 years from the adoption of liberal policy since 1989/90 to 2010/11. International comparison of policy framework is beyond the scope of this study. Simple descriptive statistical tools have been used for data analysis.

1.6. Organization of the Study

This study comprises of seven chapters and each chapter is further divided into different sections and sub-sections.

The first chapter, which is the introductory portion, gives the general introduction of the whole study. Chapter two is related to the review of literature. It includes a discussion on the theoretical framework as well as the review of the major empirical works. The theoretical analysis and review of related literature conducted in this chapter provide a framework and with the help of which this study has been accomplished. Chapter three is concerned to the research methodology used in this study. This chapter comprises of research design, nature and sources of data method of analysis and definitions of key terms. Chapter four is related to laws and policies relating to foreign direct investment. Chapter five is related to trends and performance of FDI in Nepal. Chapter six is related to prospects and challenges of FDI in Nepal. Lastly, chapter seven includes summary and conclusions of the study and the recommendations that may be helpful in formulating policies. This chapter is followed by appendices and references.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Conceptual framework

2.1.1 Concept and Definition of Foreign Direct Investment

The generally recognized definition of FDI used by the United Nations Conference on Trade and Development (UNCTAD) in its World Investment Report series and based on the definitions by the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI constitutes a long-term engagement of foreigners who make investment in fixed assets with the purpose of establishing a production capacity to make goods or produce services for sale at a profit. FDI implies that the investor exerts significant degree of influence on the management of the enterprise resident in the other ("host") economy. It is important to understand FDI for what it is, i.e. a private foreign capital flow with management participation, and the modalities through which it takes place. Often, FDI is confused for a foreign investment which mainly involves foreign stock purchases through the local stock market but which does not involve management participation. Such foreign investment is foreign portfolio investment and does not involve the construction or purchase of immovable assets constituting production capacity. FDI therefore needs to be distinguished from such short-term "hot capital" which played a major role in triggering the Asian financial crisis in 1997. While foreign portfolio investment can be easily withdrawn, FDI is of a long-term nature involving a commitment which cannot be easily terminated. While FDI typically consists of capital flows (which contribute to a host country's generally scarce capital resources) it often contributes to the transfer of technology, skills, expertise and access to export markets in a convenient package and as such FDI is in great demand by most developing countries.

Foreign investment could be defined as investment in share, equities, reinvestment of earnings derived from the investment and the investment made in the form of loan or loan facilities.

Foreign Investment and Technology Transfer Act 1992 has defined foreign investment in the following words: (FITTA; 1992:4)

“Foreign investment’’ means the following investment made by a foreign investor in any industry:

- Investment in share (equity)
- Reinvestment of earnings derived from the investment as referred to in sub-section (I) above, and
- Investment made in the form of loan or loan facilities.

Foreign Direct Investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset (UNCTAD, 1999). FDI is considered as a means of obtaining not only capital and technology but also scarce management and skill, and improved marketing know-how and outlets for non- traditional exports of manufactures, processed commodities and traded services (Chitrakar, 1994).

In neoclassical economic theory, FDI primarily implies the movement of productive capital from one country to another. When productive capital goes from capital-abundant countries to capital scarce countries, it promotes greater world production and economic welfare in the same way as expansion of international trade in goods under trade liberalization, and accordingly. FDI is considered to be a substitute for international trade in goods. In this respect, high tariffs and other barriers to trade can induce FDI, but with little beneficial effect on domestic resource allocation and economic welfare in highly distorted host countries, FDI is focused on servicing only small ‘inward- looking’ markets.

Balance of payments accounts define direct foreign investment as “any flow of lending to, or purchase of ownership in a foreign enterprise that is largely owned by residents of the investing country" (Kindelberger, 1965).

Black (1997) defines FDI as the acquisition by residents of a country of real assets abroad. This may be done by remitting money abroad to be spent on acquiring land, constructing buildings, mines and machinery or by existing foreign business. In other words, FDI is acquisition of real assets by non-residents within a country.

According to UN (2002a:5), "Private international capital flows particularly foreign direct investment . . . are vital complements to national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship and ultimately eradicate poverty through economic growth and development". In a similar vein, the OECD (2002a:11) reckons that “Increasingly, FDI has been recognized as a powerful engine and a major catalyst for achieving development, poverty- reducing growth and global integration process".

According to the Balance of payment manuals (IMF, 1977) "Foreign investment refers to investment made to acquire lasting interest in enterprises. Further, in case of FDI, the investors' purpose is to gain as effective voice in the management of the enterprise". The benchmark definition of the organization for Economic Co-operation and Development (Paris 1983:85) is that , "a direct investment enterprise as an incorporated or unincorporated enterprise in which a single foreign investor either owns 10 percent or more of the ordinary shares or voting power of an enterprise (unless it can be proved that 10 percent ownership does not allow the investor an effective voice in the management) or owns less than 10 percent of the ordinary shares or voting power of an enterprises, yet still maintains an effective voice in management". An effective voice in management only implies that direct investors are able to influence the management of enterprises and does not imply that they have absolute control. The most important characteristics of FDI which distinguishes it from portfolio investment, is that it is undertaken with the intention of exercising control over the enterprises.

The Earth Summit, United Nations Conference on Environment and Development (UNCED) held in Rio de Janerio in 1992 discussed in chapter 33 of Agenda 21 and then recommended about FDI (www.undp.org) as follows.

- FDI should account for a larger share of poverty alleviation and sustainable development financing,
- Need to link to local enterprise development, and
- Promotion of incentives for environmentally and socially responsible investments, particularly in the least developed countries.

According to Kobrin, “Foreign investment is an agent in the process of cultural borrowing that constitutes industrialization. The aspect of culture transfer trends to be diffused throughout the host society by the reemployment of trained personnel, backward and forward linkages and competitive emulation” (Kobrin, 1977:321). In the opinion of Prof. Nurkse, “The use of foreign resources is one way of breaking the vicious circle of poverty and low capital formation. The flow of foreign capital and other resources will provide an increase in productivity fast enough to out running population growth and thus launch a process of cumulative expansion, and will acquire sufficient portion of this capital in foreign exchange to permit importation of raw materials and equipment needed for development in addition to essential food stuffs" (Nurkse, 1972: 57).

2.1.2 Determinants of Foreign Direct Investment

Factors and conditions that are important determinants of inward FDI can be divided into two categories: (a) firm and industry-specific determinants; and (b) host-country specific determinants.

Investor or firm-specific factors are those factors that induce the firm to invest abroad or at least offer an advantage or support for the internationalization of production, including such firm-specific or owner-specific factors such as managerial skills, product differentiation, technological lead and know-how; large size and market power, marketing and organizational expertise, R&D capacity, etc. Typically, firms which have international exposure through export experience often engage in FDI to service the local markets better although this does not apply to all products. Some products, after all, can only be provided through exports (i.e.Boeing planes) while others can only be provided through FDI (i.e., MacDonald hamburgers), while other products can be provided through an appropriate mix of selling methods. It is the host-country specific characteristics which are most important in the investment location decision for a foreign investor in a globalizing world. Not only countries, but locations within countries are selected for investment on the basis of various criteria. A company wishing to engage in FDI will examine alternatives of location that make FDI worthwhile (i.e. which results in a positive role of return on investment). What location will be chosen depends on the character of the would-be subsidiary. Either the subsidiary is set up to satisfy local market demand or is established to export back to the home country or to other markets. Both types will put different emphasis on criteria a location (country) has to meet to receive FDI. The attractiveness of a country/locality as investment destination depends on the general development level of the country/locality. In other words, while Governments of developing countries put much emphasis on FDI as a contributor to national economic development actually a minimum level of development is required to attract FDI, unless the country has a unique characteristic or natural resources which can be easily exploited. However, for more upstream manufacturing activities and more sophisticated services industries, TNCs look for countries which offer the best facilities for the least cost. The following determinants for both inward (from the host country's perspective) and outward (from the home country's perspective) FDI can be distinguished:

(a) Factor conditions:

The nation's position in factors of production is necessary to compete in a given industry. Factors of production go beyond only capital and labour but may be categorized as human resources, physical and natural resources, climate, location, unskilled labour and capital, but also advanced factors that are created such as modern infrastructure, universities, and highly skilled labour. Countries with a relatively large pool of advanced factors, including highly specialized factors, that are used by firms in an effective and efficient way in particular industries, gain competitive advantage in those industries, with high potential for FDI from the industries' firms. However, firms from countries with selective factor disadvantages may feel compelled to invest abroad to tap resources in other countries where these factors (usually those that are fixed) are relatively abundant. At the same time, the country's possession of both traditional and advanced factors forms a strong determinant for foreign investors to invest in that country. Not only the availability of certain factors is important, but also their costs. Thus, while traditionally FDI was motivated by low costs and hence cheap labour availability, increasingly the quality and skills of labour also matter in most industries. As a result, a proper mix of low cost and high skills is a main determinant for FDI in the labour-intensive industries. With regard to infrastructure, not only the availability of roads and airports and telephone lines matter, but in the globalizing world, access to high-speed Internet connection and overall ICT capabilities of a country figure prominently in the selection of localities by TNCs.

(b) Demand conditions:

The nature and size of home demand for the industry's product or service. Both quantity and quality of home demand are important. Not only has the size of home demand affected competitive advantage, but in particular the composition of demand. Nations gain competitive advantage in industries or industry segments where the home demand gives local firms a clearer or earlier picture of buyer needs than foreign rivals can have, and pressure local firms to innovate faster and achieve more sophisticated competitive advantages compared to foreign rivals. A large and growing pool of sophisticated and demanding buyers in a country greatly contributes to gaining competitive advantage in a particular industry and therefore by selected companies in that industry, which are often the more experienced TNCs. Of importance in this context is also the way by which a nation's domestic demand internationalizes and pulls a nation's products and services abroad. If buyers are mobile and include TNCs, or if a country's specialized universities attract foreign students, for example, the country's products will be in demand abroad and FDI from the country is likely to follow. At the same time, of course, a country with large and sophisticated demand is very likely to attract FDI which is domestic-market oriented. Countries such as India and China are cases in point where rising levels of income offer enormous potential for TNCs.

(c) Related and supporting industries:

The presence or absence in the country of supplier industries and related industries that are internationally competitive determines the competitive advantage of local firms in a particular industry and the extent to which these firms will invest abroad. Conversely, an industry with many firms investing abroad will pull related and supporting enterprises, in particular in services and supplier industries abroad. The more linkages exist in an industry, the more FDI will emanate from the country with that industry, once a few firms in the industry or in related or supporting industries start investing abroad. At the same time, foreign investors more and more require the services of well-developed supporting industries in the country where they intend to invest. As such, they are more likely to invest in countries where such services exist than in countries where they are not. Where they do not exist, supporting enterprises from the home country may follow the larger TNCs and invest in the host country. However, if those supporting industries are locally available, the host economy tends to benefit more. Relationships with domestic supporting industries often take place through subcontracting arrangements where the local enterprise benefits from its links with the TNC. Therefore, the establishment of backward linkages between TNCs and local (often small and medium-sized) enterprises is an important development tool.

(d)Firm strategy, structure and rivalry:

The fourth broad determinant of national competitive advantage in an industry is the context in which firms are created, organized and managed as well as the nature of domestic rivalry. While the first category of FDI determinants refers to firm-specific characteristics, related to individual firms, this determinant of national competitive advantage refers to the unique corporate culture in a particular country on a country-wide basis as goals, strategies, and ways of organizing firms in industries vary widely among nations. Some cultures are more likely to result in FDI than others. More important, the pattern of rivalry at home also has a profound role to play in the process of innovation and the intimate prospects for international success. While higher intensities of competition in a given industry in a country would result in a higher chance that firms in these industries would engage in FDI and would extend their "battlefield" abroad, even at the global level, such industries would also attract FDI, in part because of the global character of competition that national rivalry would lead to, but also because higher-technology investment would be attracted by countries where the strong need for innovation had induced strong universities, R&D institutions, and the like, and consequently a pool of well-educated and highly trained personnel. It follows that the presence and high level of development of all four determinants would put a country in a position where it acts as both a favorite home and host country for FDI. For this reason, most FDI in the world takes place among developed countries and development means nothing more than a strong presence of the four determinants of national competitive advantage. The way government influences each of the four determinants through the host of policies (in particular its spending and regulations) is important to explain national competitive advantage and FDI patterns. In particular, foreign investors look for countries with governments which promote or do not hinder FDI and offer a stable political climate. In particular, foreign investors look for countries with conducive laws and regulations which are actually implemented and enforced in a non-discriminatory manner. Countries which have signed bilateral investment treaties with the home countries or are members of international dispute settlement arrangements are also favored. Countries with open liberal trading regimes (membership in WTO) also stand out as favored investment destinations. Chance events also play a role and are important because they create discontinuities that allow shifts in competitive position and FDI patterns and opportunities. Cultural factors, including social norms and values and languages similar to those of the home country of the investor, also play an important role in the determination of competitive success and FDI, though such factors differ widely among countries and regions and are decreasing in importance in an increasing globalized world.

2.1.3 Motives of Foreign Direct Investment

The literature on FDI identifies three most common investment motivations: resource-seeking, market-seeking, and efficiency-seeking (Dunning, 1993).

1. Resource-seeking: the main motive of the firm is the acquisition of particular resources not available at home (natural resources or raw materials) or available at a higher cost (unskilled cheap labour). The availability of natural resources, cheap unskilled or semi-skilled labour, creative assets and physical infrastructure promotes resource seeking activities. Historically, the most important host country determinant of FDI has been the availability of natural resources, e.g. minerals, raw materials and agricultural products.

   Even when it is prominent as an FDI determinant, the presence of natural resources by itself is not sufficient for FDI to take place. Comparative advantage in natural resources usually gives rise to trade rather than to FDI. Investment takes place when resource-abundant countries either lack the large amount of capital typically required for resource extraction or do not have the technical skills needed to extract or sell raw materials to the rest of the world. In addition, infrastructure facilities for getting the raw materials out of the host country and to its final destination have to be in place or needed to be created (UNCTAD, 1998).

   Labour-seeking investment is usually undertaken by manufacturing and service MNEs from countries with high real labour costs which set up or acquire subsidiaries in countries with lower real labour cost to supply labour intensive intermediate or final products. Frequently, host countries have set up free trade or export processing zones (Dunning, 1993).

2. Market-seeking: firms invest abroad to profit from foreign markets. Various reasons can actually lead to follow supplies or customers that have built foreign production facilities; to adopt goods to local needs or tastes; to avoid the cost of serving a market from

distance; to have a physical presence on the market in order to discourage potential competitors.

Market seeking investment is attracted by factors like host company's market size, per capita income and market growth. For firms, new markets provide to chance to stay competitive and grow within the industry as well as achieve scale and scope economies. Traditionally, market size and growth as FDI determinants related to national markets for manufacturing products sheltered from international competition by high tariffs or quotas that triggered "tariff-jumping" FDI (UNCTAD, 1998, 107). A part from market size and trade restrictions, MNEs may be prompted to engage in market-seeking investment when their main suppliers or customers have set up foreign producing facilities and in order to retain their business, they need to follow them overseas (Dunning, 1993, 58).

3. Efficiency-seeking: FDI that occurs when:

   a. firms take advantage of differences in the availability and the costs of traditional factor endowments in different countries; or

   b. they take advantage of the economies of scale and scope and of differences in consumer's tastes and supply capabilities.

The motivation of efficiency-seeking FDI is to rationalize the structure of established resource based or market seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities. The intention of the efficiency seeking MNE is to take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies and market structures by concentrating production in a limited number of locations to supply multiple markets (Dunning, 1993, 59). In order for efficiency seeking foreign production to take place, cross-border markets must be both well developed and open, therefore, it often flourishes in regionally integrated markets (Dunning,1993,59).

However, it is worth noting that many of the larger MNEs are pursuing pluralistic objectives and most engage in FDI that combines the characteristics of each of the above categories. The motives for foreign production may also change as, for example, when a firm becomes an established and experienced foreign investor (Dunning, 1993, 56).

2.1.4 Benefits of Foreign Direct Investment to LDCs

FDI may have wider and technological benefits through its spill-over effects; it could also encourage the development of technological know-how by and in local firm and institutions, to the detriment of the growth of domestic producers and the national economy (South Centre 1997: 37).

The possible benefits of FDI include the transfer of technology to individual firms and technological spill-over to the wider economy; increased productive efficiency due to competition from multinational subsidiaries; improvement in the quality of the factors of production including management in other firms and not just the host firm; benefits to the balance of payments through the inflow of investment funds; increase in exports; increase in savings and investment, and hence faster growth of output and employment, consumers may benefit both form lower prices of goods and the introduction of new or better quality goods (South Center 1997; 36-37).

"Unrestricted capital flows may also offer several other advantages. First, international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment. Second, the global integration of capital markets can contribute to the spread of best practices in corporate governance, accounting rules, and legal traditions. Third, the global mobility of capital limits the ability of governments to pursue bad policies. In addition to these advantages, which in principle apply to all kinds of private capital inflows, the gains to host countries from FDI can take several other forms:

- FDI allows the transfer of technology—particularly in the form of new varieties of capital inputs—that cannot be achieved through financial investments or trade in goods and services. FDI can also promote competition in the domestic input market.
- Recipients of FDI often gain employee training in the course of operating the new businesses, which contributes to human capital development in the host country.
- Profits generated by FDI contribute to corporate tax revenues in the host country.

Of course, countries often choose to forgo some of this revenue when they cut corporate tax rates in an attempt to attract FDI from other locations. For instance, the sharp decline in corporate tax revenues in some of the member countries of the Organization for Economic Cooperation and Development (OECD) may be the result of such competition. In principle, therefore, FDI should contribute to investment and growth in host countries through these various channels". (Feldstein, 2000)

"The benefits of FDI consists of (a) transfer of technology (b) transfer of capital (c) enhancement of managerial capacity and skills, (d) access to world market, and (e) employment opportunities" ,(Dahal and Aryal ,2000)

"Foreign direct investment has come to be widely recognized over the past decade as a major potential contributor to growth and development. It can bring capital, technology, management know–how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer – term commitment to the host economy" (Ricupero and Cattaui, 2003).

"Foreign direct investment (FDI) can play a key role in the economic growth and development process. The importance of FDI for development has dramatically increased in recent years. FDI is now considered to be an instrument through which economies are being integrated at the level of production into the world of globalization by bringing a package of assets, including, capital, technology, managerial capacities and skills, and access to foreign markets. It also stimulates technological capacity-building for production, innovation and entrepreneurship within the larger domestic economy through catalyzing backward and forward linkages" (UNCTAD, 1996a). FDI is perceived to be superior to other types of capital inflows for several reasons:

- In contrast to foreign lenders and portfolio investors, foreign direct investors, typically, have a longer term perspective when engaging in a host country. Hence, FDI inflows are less volatile and easier to sustain at times of crisis.
- While debt inflows may finance consumption rather than investment in the host country, FDI is more likely to be used productively.
- FDI is expected to have relatively strong effects on economic growth, as FDI provides for more than just capital. FDI offers access to internationally available technologies and management know–how, and may render it easier to penetrate world markets.

2.2 Foreign Direct Investment in Nepalese context

2.2.1 Brief History

In the context of Nepal, history of foreign direct investment is very short as compared to that of USA, UK, and France. FDI in Nepal can be analyzed in terms of time periods. They are (a) Early period (1760 – 1840) (b) Rana Regime (1840 -1950) (c) Panchayat regime (1960 – 1990) and (d) Restoration of democracy 1990 and onwards).

a) Early period (1760s – 1840s)

In earlier period of Nepal's history, Late Great King Prithivi Narayan Shah developed and adopted the nationalist policy prohibiting foreigners in Nepal for any purpose for preserving "nationalism, independence and sovereignty" between two giants – India and China.

b) Rana Regime (1840 – 1950)

After the rise of Rana Regime in Nepal, Prime Minister Jung Bahadur Rana continued traditional nationalist policy started by Shah Rulers. He made it liberal balancing and making cheerful particularly to British Empire for preserving nationalism, independence and sovereignty" of Nepal. The formation of Udyog Parisad in 1935 was the initial spurt towards industrialization in Nepal. This was followed by Nepal Company Act 1936 which made provision for the incorporation of industrial enterprises or joint-stock enterprises. Biratnagar Jute Mill, the first joint – stock public company was established in 1936 in collaboration with Indian enterprises and local counterpart with a paid up capital of Rs. 800,000.

The great World War II pushed up demand of jute products encouraging foreign investment in Nepal particularly in jute production. Then FDI inflow increased in the production of handmade papers, soap, ceramic, furniture, mats, textile and cigarettes. But most of these joint ventures closed after the end of the Great World War II.

c) Panchayat Regime (1960s'-1990s')

In 1960s', Panchayat regime was introduced. However, the political transition of 1960s' could not favor FDI till 1980s. In the subsequent years of 1980s', Nepalese economy was suffering from macroeconomic crisis. In such situation, Nepal had not alternative except to implement structural adjustment program (SAP) introduced and developed by the World Bank and IMF. In the SAP, Nepal could get financial assistance from the WB and IMF. Nepal began structural reforms by devaluating Nepalese currency with dollar by 14.7 percent. Nepal laid emphasis on private sector led growth. In 1980s' the government of Nepal reviewed commercial Act-1984 and then liberalized the financial sector for Joint Venture Investment in Commercial Banks.

Consequently, Nepal Arab Bank Limited was established. The SAP was continued till 1989. During the period, the flow of FDI began to come in Nepal in financial and services sector.

d) Restoration of Democracy (1990s'-the Present):

The wave of globalization in the world and the restoration of democracy in 1990 have made liberal political economy as a foundation of market economy. Accordingly, SAP was recharged into Enhanced Structural Adjustment Program (ESAP) under which Nepal followed liberal policy reforms in all sectors (taxation system, industry, trade, investment, service sector, and water resources) to ensure people's higher aspiration and as a preparatory requisite to enter WTO. Thus, all economic sectors except security, media, micro enterprises, traditional agro-enterprises and few sub-sectors related tourism have been opened for FDI and private sector. This created optimism about the inflow of FDI. However, FDI flow did not meet expectation.

2.2.2 Recent trend of FDI in Nepal

At the end of FY 10/11, there were 2,108 foreign investment projects in Nepal, worth a total of approximately USD 2.61 billion, according to official GON statistics. India was by far the most important foreign investor in Nepal with 501 ventures, accounting for nearly 47.6 percent of total foreign investment. Ten of the 20 largest foreign enterprises in Nepal had Indian investment. China with 401 ventures ranked second, accounting for 10.34 percent, and U.S. with 174 ventures ranked third, accounting for 7.28 percent of total foreign investment. Japan, South Korea, and the United Kingdom are also prominent sources of foreign investment.

Reform of laws and regulations has allowed the growth of private operations in sectors that were previously government monopolies, such as telecommunications and civil aviation. In 2005, the GON also opened some service sectors to foreign investment. Licensing and regulations have been simplified, and 100-percent foreign ownership is now allowed in the travel and tourism sector, and the production of cigarette and alcohol. Government policy also permits 51 percent foreign investment in consultancy services, such as management, accounting, engineering and legal services, and retail chain stores and franchises having presence in more than two countries. New banking institutions and a small stock exchange provide alternative sources of investment capital. On January 1, 2010, per its accession commitments to the World Trade Organization (WTO), Nepal opened the domestic banking sector to foreign banks, which are now allowed to engage in wholesale, but not retail, banking. Foreign banks operating branches in Nepal can invest only in major infrastructure projects.

The Government has opened the hydropower generation sector to private development, including foreign ownership. In August 2011, the Ministry of Energy announced the new Hydropower License Management Procedure, which promised to award licenses for hydropower projects above 10 MW through a competitive process. However, the process for obtaining licenses for hydropower projects remains cumbersome, and the new policy has created uncertainty about pending license applications. Unreasonable delay in the evaluation of hydropower survey license applications, a poor security environment, corruption, and political instability also discourage long-term investment in this sector.

Despite these steps to open additional sectors, significant barriers to increased foreign investment remain. Basic infrastructure needed to support investment is inadequate. The supply of power and water is insufficient. Transport is difficult and expensive, a problem compounded by the fact that Nepal is landlocked. Most products imported and exported by ship enter through Kolkata, India, and are then shipped overland. Nepal also lacks trained personnel and basic raw materials. In addition to these challenges, foreign investors must also deal with inadequate and obscure commercial regulations, vague and changeable rules governing labor relations, a non-transparent and capricious tax administration system, and difficulties in obtaining long-term visas. Furthermore, there is often variance between the letter of the law and its implementation.

Foreign investors complain about complex and opaque government procedures and a working-level attitude that is often more hostile than accommodating. Efforts intended to establish a "one window policy" and streamline government procedures related to foreign investment have produced few results, although the recently created Investment Board is designed to play such a role and coordinate domestic and foreign investors. The Board will focus on large investment projects worth more than Rs 10 billion (USD 130 million) and certain key sectors, and could help cut through bureaucratic delays and improve interagency coordination. The GON has long been aware of the deficiencies in the investment climate, but has moved slowly on creating a more investor-friendly climate. The Foreign Investment and Technology Transfer Act of 1992 abolished the minimum capital investment requirement and eliminated other significant barriers to investment. The Act also allowed investment in the legal sector, management consulting, accounting and engineering services, with a 51-percent limit on foreign ownership.

2.2.3 Policy Framework of FDI

The most significant foreign investment laws are: the Foreign Exchange (Regulation) Act of 1962; the Foreign Investment and One Window Policy of 1992; the Foreign Investment and Technology Transfer Act of 1992 and its Amendments; the Immigration Rules of 1994; the Customs Act of 1997; the Industrial Enterprises Act of 1992; the Electricity Act of 1992; the Privatization Act of 1994 and the annual Finance Act , which outlines customs, duties, export service charges, sales, airfreight and income taxes, and other excise taxes that affect foreign investment.

The Foreign Investment and One Window Policy lists acceptable forms of investment, allows for foreign shares up to 100 percent in business areas not on its "negative list," establishes currency repatriation guidelines, and outlines visa arrangements, arbitration guidelines, and a special "one window committee" for foreign investors. The Foreign Investment and Technology Transfer Act (FITTA) 1992, which was revised in 1996, 2000, 2002, and 2010, eliminated the minimum investment requirement, while opening legal, management consulting, accounting, and engineering services to foreign investment, with a 51-percent ownership limit. It also clarified rules relating to business and resident visas. In general, under the FITTA all agreements related to foreign investment are governed by Nepali law and subject to arbitration in Kathmandu under United Nations Commission for International Trade Law rules. However, foreign law can be applicable in cases where the foreign investment exceeds NRS 500 million (approximately USD 6 million) and where the parties make this choice clear in their agreement.

The Customs Act and the Industrial Enterprises Act, revised in 1997, established invoice-based customs valuations and eliminated many investment tax incentives, replacing them with a lower, uniform rate. The Electricity Act defines special terms and conditions for investment in hydropower development. The Privatization Act of 1994 authorizes and defines the procedures for privatization of state-owned enterprises to broaden participation of the private sector in the operation of such enterprises.

Additionally, the terms and conditions of intellectual property protection are defined by the 1965 Patent, Design and Trademark Act and the 2002 Copyright Act. The latter covers all types of electronic audio and visual materials and subjects violators to fines and imprisonment, as well as the confiscation of unauthorized materials. Violators also have to pay compensation claimed by the copyright holder. However, it does not meet the standards for trade-related intellectual property rights required by the World Trade Organization. The Government of Nepal is working to revise its intellectual property rights legislation to meet international standards.

The Competition Law 2004 controls anti-competitive practices, protects consumers against monopoly rights of trading enterprises, promotes fair competition for the growth of trade and commerce, and includes provisions for the control of mergers and acquisition of two or more firms that have the potential of gaining dominance in the market and acquisition of monopoly rights. The Competition Law also contains special provision for controlling black marketing and misleading advertisements.

Most of the acts and policies, and their amendments, governing foreign and private investment in the potential sectors were brought out during the last decade. However, implementation and enforcement of these laws and policies remain a challenge. Additionally, the transitional political atmosphere renders the investment climate in Nepal uncertain.

2.2.4 Institutional Arrangements

In August 2011, a high-level Investment Board was created to serve as a one window facility for domestic and foreign investors pursuing large projects greater than Rs 10 billion or approximately USD 130 million or projects in "priority areas" such as fast-track roads, hydropower projects over 500 MW, railways, medical colleges, tunnel roads and bridges, cable cars, international and regional airports, urban solid waste management, chemical fertilizers, and petroleum refinery plants. The Board, chaired by the Prime Minister, has the authority to formulate investment policies, prioritize and approve projects, facilitate the signing of agreements among different ministries, provide financial and nonfinancial facilities, procure land, monitor project progress, order government agencies to issue necessary project approvals and override any regulations in the existing laws in the name of investment promotion. The creation of the Board is meant to help cut through bureaucratic red-tape and expedite investments coming into Nepal.

Prior to the establishment of the Investment Board, the Department of Industry, under the Ministry of Industry, was designated as the "one window servicing agency" for all foreign investment to facilitate corporate registration, land transfers, utility connections, administrative services agreements, and coordination among various agencies. The Department also registers and classifies foreign investments and manages the income tax and duty drawbacks granted to some foreign investments. The Department of Industry remains the focal point for foreign investments of less than NRs. 10 billion, or investments outside of the priority areas.

The Industrial Promotion Board (IPB), chaired by the Minister of Industry, is the primary government agency responsible for foreign investment. It is charged with coordinating policy-level institutions, establishing guidelines for economic policy, approving foreign investment proposals, and determining applicable investment incentives.

Under current administrative procedures, foreign investors are required to obtain licenses for manufacturing or service sector investments, and each license request is considered individually. Investments below 2 billion rupees (approximately USD 25 million) are referred to the Department of Industry for action and are typically approved at the departmental level without the involvement of the IPB. However, investors frequently complain about bureaucratic delays and lack of transparency in procuring investment licenses. For investments exceeding Rs. 2 billion, up to six ministries other than the Ministry of Industry review a business proposal prior to consideration by the IPB.

The Department of Electricity Development, under the Ministry of Energy, is responsible for licensing all investments in hydropower projects. However, decisions on project proposals that involve foreign investment are invariably made by the Ministry of Energy itself. Similarly, Nepal Rostra Bank (NRB), the country's central bank, is responsible for issuing licenses to operate commercial banks and financial institutions. The Insurance Board (IB) is responsible for issuing licenses to operate insurance companies, both life and general. The Civil Aviation Authority of Nepal (CAAN) is responsible for granting operating licenses to both domestic and foreign airline operators, and the Nepal Telecommunications Authority (NTA) is responsible for issuing licenses for operating any type of telecommunications and information technology services.

Licensing of new investments is often time-consuming and requires legal counsel and patience. The IPB, for example, is mandated by law to make a licensing decision within 30 days of submission of an application, but this deadline is not generally met because of the legal provision that all necessary information must have been submitted before a decision can be made. In practice, multiple meetings are usually required before the information is deemed sufficient

2.2.5 Review of Nepalese Studies

An initial study taken by Chitrakar (1986) found that the flow of foreign investment in manufacturing sector was not so enough in mineral based sector was negligible. The main problem was due to the non- implementation of policies and the act made by HMG/N, Bureaucratic Harassment, hard to get incentives according to the provision made by government etc. The impact of solitary Ministerial Meeting and Investment Promotion Meeting held for promoting foreign investment in Nepal has become less effective that fail to motivate foreign investors towards Nepal

The research found that national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the inflow of FDI in the country like Nepal. The collective efforts at the regional and international level are required for the growth of FDI inflow.

The study has also mentioned some problems in attracting FDI like lack of predictable and transparent policy, absence of monitoring mechanism to accurately monitor the flow of FDI, political instability, and so on.

Bhatt (1993) points out many obstacles for attracting foreign investment in Nepal. According to the study, the main shortcomings for the investors are size of the country, skill shortage, inadequacy of the domestic infrastructure, corrupted bureaucratic system, lack of human resources, etc.

Pant (1994) analyses benefits, cost and determinants of foreign direct investment. The study mentions the benefits of FDI. According to the study, “FDI supplies capital which might not otherwise be available due to a low level of domestic saving and because access to bond and other portfolio finance from developed countries has been limited on the one hand and FDI carries within it a complementary package of inputs that include managerial and marketing expertise, knowledge of technical processes, scare lobour skills and, in some cases, facilities for training local workers in varieties of skills on the other”.

Chitrakar (1994) makes an extensive study on FDI in Nepal with cross country references of SAARC regions. The study, based on primary as well as secondary data, analyses the trend and the form of foreign investment, its determinants, facilities and incentives offered to attract it and causes of sluggish and disappointing flow of it in Nepal. The study also finds that the flow of foreign investment in Nepal is less impressive than that of neighbouring countries despite the adoption of more liberal policies and promised facilities and incentives. The study reveals that more liberal provisions and handsome facilities and incentives are not adequate measures to bring in heavy flow of foreign investment.

Chitrakar shows both positive and adverse effects of foreign investment. According to the study, as benefits of foreign investment, it may accrue to the host country by way of:

- Reducing the shortage of domestic savings
- Increasing the supply of foreign exchange
- Generating external economies as foreign investment involves non-monetary transfers of other resources like technological knowledge, market information, management and supervisory personnel, organizational experience and innovations in products and production techniques all of which are in short supply in developing countries.

Timilsina and Mahato (1998) explain that the foreign direct investment is a means of industrialization which would lead to diversify the economy for a durable, social, psychological and institutional framework. To quote them, “foreign investment is considered important for the industrialization of Nepal. Some basic features associated with the direct foreign investment are that it will attract capital, technology, and expertise furthermore it will help to share risks, exploit resources presently and provide access to export market, all these factors are either in short supply or absent in Nepal”.

The study takes industrialization as a means of breaking the vicious circle of poverty thereby raising the formation and accumulation of capital in capital scare countries like Nepal where industrial development is considered necessary for the purpose of achieving various economic goals like higher rate of growth, fulfillment of the basic needs, creation of more employment opportunities etc. It means “Industrialization is to break vicious circle of poverty and create prosperity through the process.” Further the study focuses that industrialization is to overcome the limited “carrying capacity” of agricultural sector in terms of employment, poverty alleviation and overall economic development. For this, some basic requirements are capital, appropriate technology, skilled human resources, market, infrastructure and favorable administrative and legal environment that could be fulfilled through the inflow of foreign investment.

The study has focused basically on the historical development, importance and structure of FDI in Nepal together with the analysis of legal provision and incentives and facilities offered through it. The study also touches the problems of foreign investment in Nepal. However, the analysis on this topic is less detailed than the others they have observed.

Poudel (1999) discusses that foreign direct investment would enter Nepal only if the investors were ensured for maximum profit. Nepal, a low cost economy by dint of abundant labour and low wage rate are strengths for attracting foreign direct investment. But the component of labour in the real cost is declining significantly with the increasingly larger use of high-tech components. Moreover, the unskilled nature of labour eliminates the advantage of low cost. Thus, it is imperative to concentrate on producing skills and technical manpower by orienting the educational system and operating for a coordinated approach by the universities in line with the emerging demand of international business.

Dahal and Aryal (2002) write:

In a poverty-stricken economy like Nepal where internal resources are extremely limited, not enough to supplement current expenditures, and dependence of foreign aid (grants and loans) is increasing with poor performance shown by economic growth rate; and where political conflict is getting momentum, the role of FDI is crucial not only to sustain development activities but also for poverty alleviation.

The data for FDI reflects that investment from India is prominent, attributing to both economic and social proximity between Nepal and India. A pragmatic strategy for development based on two pillars would help achieve the target of attaining a high level of growth and poverty alleviation. These are (a) improving the investment climate though strengthening macroeconomic stability, trade openness and competitive markets, improving governance and institutions and infrastructure and (b) through social inclusion, good governance and poverty reduction (Stern, 2002).

Dangal (2002) has observed the laws and policies and other general determinants of FDI including motivating factors affecting decision to invest in Nepal, problems and prospects of FDI in Nepal. The study supported by both primary and secondary sources revealed foreign investment scenario in Nepal has been dismal. Despite its free market reforms and incentives, Nepal has attracted only a small portion of FDI flowing to South Asia. The analysis of flow of FDI in the country reveals that it commenced to flow remarkably into Nepal from the time when democratically elected first government of Nepali Congress adopted liberal policies in the matter of getting private domestic or foreign investors involved into the economic activities of a country.

Bista (2005) deals with impact aspects of FDI at micro and macro levels and its structure and policy environment. The study concludes that "Nepal still needs a big push for achievement of sustainable higher economic growth, macro-economic stability and welfare to the poorest of the poor when we observe back to the weak performance of the planned development and huge resource expenses over 56 years. In this context, FDI is not sufficient to increase the inflow of FDI in the country like Nepal". The study further focuses that "national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the inflow of FDI in the country like Nepal. The collective efforts at national and international level are required for the growth of FDI inflow. The FDI policies of developed countries should be revised to address the real global issues: poverty, inequality, unemployment, hunger etc. Then, FDI may be a hope to developing countries for economic development".

Out of this Literature of FDI in terms of foreign and Nepalese perspective, it can be concluded that national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the flow of FDI in the country like Nepal. The collective efforts at regional and international level are required for the growth of FDI inflow. It can be learnt when the distribution of FDI is studied at the global level in which 49 LDCs remain marginal recipients with just two percent of total FDI to developing countries or 0.5 percent of global level. It implies that almost all FDI move to the developed countries. In this context, the growth of FDI may be myth to developing countries and LDCs if the developed countries do not change the structure of FDI. Therefore, the FDI policies of the developed countries should be revised to address the real global issues: Poverty, inequality, unemployment, hunger etc. Only then FDI may be a hope to developed countries for economic developing countries for economic development.

CHAPTER III
METHODOLOGY OF THE STUDY

Present study in view of its objectives and scope has tried to examine the structure, prospects and policy perspectives of FDI in Nepalese context. Its methodology is specified accordingly as follows.

3.1 Data and Information

To address the objectives, descriptive and analytical methods have been used. For this, secondary data and information have been used. The required data and information have been collected from the secondary sources.

3.2 Sources of Data

The secondary data have been collected from many sources such as Department of Industry, Foreign Investment Promotion Section of Ministry of Industry, Central Library of T.U., NIDC, CBS, CEDA Library, NRB, DOI, MOF, FDI Dept., NPC etc. Secondary data thus collected from different offices and departments have been further processed and analyzed to find out the past trend and structure of FDI in Nepal, future constraints of FDI flows into Nepal and prospects of FDI in Nepal.

3.3 Data Processing and Analysis

All the relevant data and statistics have been tabulated according to the need of the study and within the log frame of the study. The tabulated data have been analyzed and interpreted using different statistical tools like pie-chart, bar diagram, etc

3.4 Time Period of the Study

This study has been mainly based on secondary data for a period of 22 years from FY 1990/91 to FY 2010/11.

3.5 Conclusion

Present study is basically an exploratory one. This study is based only on secondary data. The secondary data are collected from official and unofficial sources. All the relevant data and statistics collected have been tabulated according to the need of the study. The tabulated data have been analyzed and interpreted using different statistical tools like line graph, bar diagram, pie-chart, etc.

CHAPTER IV

POLICIES RELATING TO FOREIGN DIRECT INVESTMENT IN NEPAL

4.1 Foreign Direct Investment in Nepal

The government of Nepal has made some legal framework to attract FDI formulating a number of acts and policies making them favorable and suitable through timely amendments. The present acts and policies are providing various incentives to attract FDI. Some of the acts and the policies of the government are as follows:

4.1.1 Foreign Investment and Technology Act, 1981

The first official acknowledgement of the importance of foreign investment was recognized in Sixth Five Year Plan (1980/81- 1984-85), where it was delineated that foreign investment and technology was required primarily in large scale industries and mineral-based industries. As a result, the Foreign Investment and Technology Act 1981 was enunciated. The salient features of the act were: (a) industrial units set up under the Act would not be nationalized; and b) industrial units set up under the act would receive the same facility, concession and protection as provided by the Industrial Enterprise Act, 1982. Foreign investors were permitted to have majority of shares in medium scale industries but were permitted 100 percent in large–scale industries, with more than Rs. 10 million investments in fixed assets.

Various facilities and provisions were included in the Act for instance, production oriented industries with 25-50 percent value-added would be granted full income tax exemption for five years. Analogously, tourism-based industries were granted full income tax exemption for a minimum of 7 years and the industries set up in underdeveloped areas were exempted from excise duty for a minimum of 5 years. Moreover, convertible foreign currency facilities were to be provided to joint venture industries for importing machineries, equipments and tools, spare parts and components, raw materials as well for technical consultancy and management fee. Still, the Act restricted any foreign investment and transfer of technology to small and cottage industries to keep the sector solely for Nepalese entrepreneurs.

4.1.2 Foreign Investment and Technology Transfer Act, 1992

According to Foreign Investment and Technology Transfer Act (FITTA) of 1992, the foreign investment means:

- Investment in share (equity)
- Reinvestment of the earnings derived from the investment in share (equity), and
- Investment made in the form of loan or loan facilities.

According to Act, "Technology Transfer" means any transfer of technology to be made under an agreement between an industry and a foreign investor on the following matters:

- Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin.
- Use of any trademark of foreign ownership.
- Acquiring any foreign technical, consultancy, management and marketing service.

By the Act, "Foreign Investor" means any foreign individual, firm, company or corporate body involved in foreign investment or technology transfer including foreign government or international agency.

Foreign Investment and Technology Transfer Act lays down the basic law governing foreign investment in the country. The FITTA has undergone its first amendment in 1996 aiming at making the environment of industrial investment more congenial, straightforward, encouraging and transparent.

According to FITTA, 1992 permission is given to the foreign investor to repatriate the following income outside the country:

a) Amount received by the sale of the share of foreign investment as a whole or any part thereof.

b) The amount received as profit or dividend in lieu of the foreign investment.

c) The amount received as the payment of the principal of and interest on any foreign loan.

Some other major features of FITTA, 1992 are as follows:

4.1.2.1 Provision Relating to Visa

The provisions relating to Visa according to FITTA, 1992 are as follows:

1) A foreign national visiting the kingdom of Nepal in connection with undertaking any study or carrying out any research with the objective of making investment in the kingdom of Nepal shall be provided a non tourist visa for up to six months.

2) A foreign investor or dependent family or authorized representative of such a foreign investor and dependent family of such authorized representative shall for the purpose of stay in the Kingdom of Nepal be provided a business visa until the foreign investment is retained (Amended by the First Amendment).

3) Provided that a foreign investor who, at a time, makes investment in an amount no less than one hundred thousand United States dollar or in convertible foreign currency equivalent thereto, and his dependent family shall be granted a residential visa until such investment is retained.

4.1.2.2 Settlement of Disputes

FITTA, 1992 provides separate dispute settlement procedures which are as follows.

1) If any dispute arises between a foreign investor, national investor or the concerned industry, the concerned parties shall be required to settle the dispute by mutual consultations in the presence of the department.
2) If the dispute could not be settled in the manner as referred to in subsection (1) above, it shall be settled by arbitration in accordance with the prevailing arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).
3) The arbitration shall be held in Kathmandu, the laws of Nepal shall be applicable in the arbitration.
4) Notwithstanding anything contained in sub sections (1), (2) and (3) above, disputes arising in regard to foreign investment made in the industries with investment as prescribed may be settled as mentioned in the foreign investment agreement.

4.1.2.3 Procedures for Repatriating Facilities

For the repatriation of the sale of shares of the foreign investor, he/she or the concerned company must apply to the DOI for recommendation to the central bank.

4.1.2.3.1 Documents Required for the Repatriation of Sales of Shares

a) Proof of investment and number of shares owned.

b) Letter from the company stating the completion of the transfer of the related shares duly certified by the Company Registar's Office or such competent body.
c) Prior approval of DOI, if the share was transferred to any foreign national.
d) Tax Clearance Certificate.
e) Custom declaration from and the approval letter if the investment was made in the form of plant, machinery and equipment.
f) Copy of the Board of Director's Resolution.

4.1.2.3.2 Documents Required for Applying to the DOI to Get Recommendation for Repatriation of Dividend

a) Documentary proof of investment made which is issued by the commercial bank. This document is needed only for the first time and again only when further investment is made by the investor,
b) Custom declaration certificate of the import of plant machinery and equipment if the investment by the foreign investor has been made in the form of capital equipment.
c) Auditor's report including balance sheet and profit and loss account.
d) Tax Clearance Certificate.
e) Proof of dividend declaration.

4.1.2.3.3 Documents Required for Repatriating Loan and Interest

a) Certificate from the commercial bank regarding the transfer of loan amount into Nepal,
b) Custom declaration certificate and invoice of the plant machinery if the loan was obtained in the form of machinery,
c) Letter of approval of the loan agreement,
d) Tax Clearance Certificate.

4.1.2.3.4 Documents Required for Repatriating Technology Transfer Fees

The industrial unit with approved technology transfer agreement, trademark, license agreement, management agreement, and technical assistance agreement can apply to the DOI for the transfer of fees as per the agreement. The company has to submit the calculation of the amount due to the foreign technology transfer certified by the auditor along with the certificate of payment of income tax on royalty as per the prevailing tax rate.

4.1.2.3.5 Documents Required for Repatriation of the Salaries and Allowance of the Expatriates:

a) Work permit issued by the Department of Labour.

b) Document showing the amount of salary and allowance received during the period for which the repatriation is sought.

4.1.2.4 Visa Arrangement

4.1.2.4.1 Types of Visa

There is provision of seven categories of visa in the Immigration Act 2049 and Immigration Regulation 2051. There are.

a) Diplomatic Visa

b) Official Visa

c) Study visa

d) Non-tourist visa

e) Business visa

f) Tourist visa

g) Residential visa

But only the last four categories of Visa (d-g) are relevant to foreign investors and expatriate personnel.

4.1.2.4.2 Charges for Obtaining the Visa

a) Tourist Visa

A tourist can be granted tourist visa for upto 150 days in one visa year (Jan. 1 to Dec. 31) The charges for this category of visa are as follows:

- Single entry (first time in one visa year), for 60 days duration, the fee is US$ 30 or equivalent. Any extension of such visa will be charged US$30 or equivalent for a period of 30 days.
- Multiple entries for one visa-year duration, one off payment, the fee is additional US$ 50 or equivalent
- Single entry (Re-entry in Nepal), for 30 days duration, the fee is US$ 30 or equivalent. However, if the tourist had not spent more than 15 days in earlier visit, no visa fee will be charged.

But citizens of China and SAARC countries will not be charged visa fees. Similarly, any visitor spending less than 3 days in Nepal will not be charged fee.

b) Non-Tourist Visa for Carrying Out the Feasibility Study

b. Non-Tourist Visa

Foreign visitors, wishing to undertake research and study with a purpose of investing in Nepal may be granted a non-tourist visa by the Department of Immigration for a maximum period of 6 months on recommendation of the DOI. The charge for this category of visa is as follows:

- If issued at the port of entry US$ 25 for 30 days.
- In other situation, US$ 60 per month.

b.2 Non-Tourist Visa for Expatriates

If required skilled manpower is not available locally, industry can employ foreign nationals by obtaining work permit. Such expatriate personnel working in the industries will be granted a non-tourist visa for duration of one year at a time on recommendation of DOI and Department of Labor. The charges for this category of visa are:

- First year US$ 60 per month.
- Second year onwards US$ 100 per month.

c) Business Visa

Foreign investors and/or his/her authorized representative and their dependents will be granted a business visa for upto a period of five years at a time on recommendation of DOI. The charges for this category of visa are;

- For a period of one year and multiple entry -US$ 100.
- For a period of five years and multiple entry- US$ 250.

d) Residential Visa

If a foreign investor, who at a time, makes investment in an amount no less than one hundred thousand US dollar or in convertible foreign currency equivalent thereto and his dependent family shall be granted a Residential Visa until such investment is retained. The charge for this category of visa is US$ 200 per year for the first time and US$ 100 per year for each renewal.

4.1.2.5 Land Facilities

Pursuant to the Muluki Ain's (Country Code) provision in the section 3 of chapter on Adal, any foreigners are not allowed to possess any land in any form except otherwise permitted by the government. However, in case of foreign investments, such restrictions are related. Any business parties who incorporate a company in the kingdom of Nepal has rights to hold land without the Government's permission as the company by law is treated to be the juridical person of Nepalese nationality and hence the company will enjoy the similar rights as Nepali does. Moreover, Pursuant to the section 7.2 of the industrial policy industries are given priority for government land and sites in industrial districts for the establishment of the industries. Further, a one-window committee formed under the Foreign Investment policy is responsible for providing facilities, such as registration, land, electricity, water and facilities on taxation etc., for industries established or to be established through foreign investment. Therefore, notwithstanding to the Adal no. 3 of Muluki Ain, there is no theoretical or practical problem for a company owned by a foreign investment to hold land in Nepal.

4.1.2.6 Convertible Foreign Exchange Facilities

The Act has provided with the convertible foreign exchange facility for importing necessary equipment and tools, spare parts and components, auxiliary raw material and chemical required for the operation of an industry or for the sake of technical consultancy, technical assistance, service fee, management fee, patent duty, market research, industrial promotion, sales promotion etc.

4.1.2.7 Procedural Arrangements

Under FITTA, government approval or permission is required for foreign investment or technology transfer. Pursuant to 12 of Industrial Enterprise Act, a high-level Industrial Promotion Board has been established under the chairmanship of the Minister or State Minister for industries to deal with matters concerning the approval of foreign investments under FITTA. For the establishment of either 100 percent foreign owned enterprises or joint venture industry on a prescribed form along with a detailed feasibility report. The application form calls for information on project objectives, location, total project cost, source of finance, plant capacity, equipment, machinery, raw material requirements and the other specific contribution to be made by the foreign investor and the local investor.

The project proposal is passed by the Department of Industry and operation permission is granted to the industries with the fixed asset investment up to five hundred million rupees within 30 days from the date of application. In case of the fixed asset investment exceeding 500 million rupees, the DOI submits its recommendation to the Industrial Promotion Board for approval. The DOI notifies the applicant about the decision of the Board within 30 days from the receipt of the application. In granting the permission for investment, the DOI specifies facilities and concessions the investor is entitled to.

After the issuance of license, the applicant is required to apply for the registration of company with the company register's office within 35 days from the date of receipt permission.

4.1.3 One Window Policy 1992

Service delivery system is a key determinant of FDI. Generally, it should be effective to maintain the investment climate. However, long, confused, discouraging, harassment and corrupt administration of the government in service delivery system in Nepal was barrier in the path of industrialization process before Foreign Investment and Technology Transfer Act and One Window Policy 1992. In order to improve efficiency and productivity of administration for attracting FDI, the government has systematized all service delivery system into one channel to deliver service required to the investor under one roof through one window policy.

The policy that is a part of investment environment for FDI attraction has formed One Window Committee for administrating the related services and delivering them to the investors. The policy delivers the following services.

- Facilitating services of registration, land, electricity, water etc and other infrastructure facility and fiscal incentives through one window Committee for One Window Service Delivery System.
- Decision relating to permission taken by the board within 30 days.
- Describing all facilities and concessions to the industries in the letter of permission.
- Granting permission within 21 days after the submission of application in Department of Industry.

4.1.4 Industrial Policy 1992

Focusing industrial development led economic growth and economic development as required in the plan development Nepal has given significant attention on development of favorable policy environment for accelerating industrialization process within short history of industrial development. For the first time, Nepal formulated industrial policy in 1962 and revised it in 1965. Later, Nepal introduced three industrial policies between 1974 and 1987. They carried discrimination and distortion experience in structure, quantitative restriction, licensing, regulatory in their implementation. So, industrial sector suffered from substantial distortion and inefficiency in recourse allocation.

In 1992, Nepal formulated new industrial policy to depart from the past policy distortion, discrimination and inefficient resource allocation with the philosophy of liberalization and privatization. The policy opens the private sector in production, investment and distribution for the development of free and fair competitive environment so as to increase industrial production and productivity for increasing industrial contribution to the economy. The policy emphasizes the development of large and middle scale industries. Besides it, the policy encourages labour intensive, export intensive and local resource based industries.

The policy is of dualistic nature. On the one hand, it focuses on free and fair competition for comparative advantage of the country. On the other hand, it emphasizes on the protection of domestic industries. Besides it, the policy gives special attention on export intensive and import substitution large and middle scale industries and also small, cottage and agro-based industries. Apart from it, the policy gives priority to the development of FDI attracting environment along with transfer of advance technology and management.

The policy aims at increasing the contribution of industrial sector in national economy by increasing industrial production and productivity; put emphasis on the development of industries using local materials and export-oriented industries; reduce pressure of unemployment and under-employment on agriculture by developing employment – oriented industries; adopt appropriate policy of industrialization for balanced development of all sectors.

The policy, to accelerate industrial development and growth and to achieve above objectives has set up the institutional mechanism for efficient, fast, transparent, reliable and simple service delivery system. They are:

- Industrial Promotion Board.
- Institutional Development for Cottage and Small Scale Industries
- Industrial Estate Management Ltd.
- Fiscal Management for Cottage and Small Scale Industries.
- Export Promotion Zone.
- Council for Industrial Human Resource and Productivity.
- Special Management for Environment and Industrial Pollution.
- Monitoring Cell.
- Establishment of Company Register's Office.
- One Window System.

Industrial policy has been just revised but is not updated in the post era of Nepal's WTO membership. The policy reforms, however, failed to accelerate the industrialization process as targeted in the past national plans.

4.1.5 Tenth Five-Year Plan (2002-2007):

The sole objective of the Tenth Five Year Plan is to reduce the poverty from 38 percent at the beginning of tenth plan to 30 percent by the end of tenth plan. To achieve the objective, the plan has adopted the strategy of high and broad-based economic growth through industrial development investment promotion.

4.1.5.1 Foreign Investment

The Plan carrying sentiments of foreign investment policy 1992 and industrial policy 1992 incorporates reality of need and importance of FDI for addressing the resource constraint for industrial development, international market access and acceleration of GDP growth. It seems to be committed to promote foreign investment for foreign capital, advance and modern technology and managerial skill for international market access. So the plan is to develop, secured and reliable destination of foreign investment to Nepal at the international level.

The midterm evaluation of Ninth Five years plan has identified problems related to foreign investment that comprises relatively small domestic market, limited capital resources and infrastructure, administrative hurdle and harassment, show administrative decision making, lack of skilled man power, lack of security and promotional program. The tenth plan sets strategies and policies particularly addressing this problem. The plan adopts three policy measures, which includes administrative reform legal reform and foreign investment promotional program.

- Administrative Reform: Accepting reality of ineffective state functioning and hurdles on one window committee as found in the observation and the discussion with industrialist Journalism, economist, business people etc. the plan gives top priority on the implementation side of One Widow Committee. So, the plan has followed administrative and legal reform to make the procedure of foreign investment into simple, transparent, easier and to regulate monitoring system to address problem of foreign investment based industries.

- Legal Reform: The plan is under the pressure of competition with India, Bangladesh, Sri Lanka and Pakistan related to foreign investment that focuses on improving competitiveness of Nepal to compete with south Asian Countries for attracting more foreign investment in the county. For this purpose, the plan has the following strategies and policies preparation of comprehensive and depth research related to foreign investment for improving competitiveness, reviewing Foreign Investment and Technology Transfer Act 1992, Industrial Entrepreneur Act 1992, Labor Act for making foreign investment friendly and exploring solution of labour problem in exportable industries.

- Foreign Investment Promotion: The plan emphasizes the proper implementation of the existing government mechanism and agencies with realization that the Board of Investment and Nepalese Embassies are not operated effectively for foreign investment promotion.

4.1.6 FDI under the Three Year Interim Plan

The Interim Plan (2007-10) has accorded priority to foreign investment. It aims to increase the level of foreign investment through the expansion of industrial base and, to receive resources in the complementary basis for the generation of employment opportunities and high, broad-based and sustainable economic growth. Similarly, it aims to increase the Technology and Management Transfer.

The Plan has committed to policy reforms. One-Window Committee would be made more active and provide the basic facilities to the investors. Some of the major policies adopted by this plan are as follows:

1. Diplomatic agencies situated in foreign countries shall be mobilized to encourage the volume of FDI.
2. Proper policy will be developed in order to attract the capital, skills and technology of NRNs.
3. Foreign investment shall be encouraged in "Venture Capital".
4. Foreign investors are permitted to own up to 100 percent equity share in medium and large scale industries.

5. A high level Investment Promotion Board will be established to facilitate the foreign direct investment. This Board will help to provide project approval, license, and tax concessions and so on.
6. Investment with foreign collaboration shall be encouraged in different areas such as, electricity generation, tourism, especially to build airport, air services, agriculture, education and health, fiscal services, information technology and bio-technology relating industries.

As the classical economist David Ricardo (1772-1823) propounds in his Law of Comparative Advantages, every country has to look at its own prime advantages. Ricardo states 'there is mutual benefit from trade (or exchange) even if one party (e.g. resource rich country, highly skilled artisan) is more productive in every possible area than its trading counterpart (e.g. resource-poor country, unskilled labour), as long as each concentrates on the activities where it has a *relative* productivity advantage' (Wikipedia). While applying the law in the Nepalese case, natural endowment is one such example where the country is blessed with many advantages. As Nepal Trade Integration Strategy (NTIS) 2010 has succinctly identified, there are nineteen areas in which the country enjoys comparative advantage in relation to other countries. This list includes cardamom, ginger, honey, lentils, tea, noodles, and medicinal herbs/essential oils from agro-food category. Similarly, handmade paper, silver jewellery, iron and still, pashmina and wool products are included from craft and industrial goods category. Likewise, tourism, labor services, IT and BPO services, health services, education, engineering, hydro-electricity are selected from services sector. Finally, transit trade services between Tibet and India, sugar, cement, dairy products and transformers are other potential export sectors (MoCS, 2010: 10). In these sectors, Nepal could excel provided the suggested matrix of the NTIS 2010 are implemented to ensure competitiveness. FDI could thus be easily attracted to invest in these sectors since they are saleable in destination markets. In terms of policy, Nepal has been a liberal economy. Accession to the World Trade Organization (WTO) in 2004, membership of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), becoming a part of South Asian Free Trade Area (SAFTA), new Trade Policy 2009, new

Industrial Policy 2010, and NTIS 2010 are some instances of the liberalized economy. In recent days, at high level the country has held Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement (DTAA) agreements with India in 2011 during the visit of Nepal's PM to India. One more agreement Nepal signed is the Trade and Investment Framework Agreement (TIFA) with the USA in 2010. Such arrangements are potential in sending around good gesture and instilling confidence in prospective foreign investors in a view of getting them motivated for investment. They themselves are self-explanatory stating to what extent Nepal is opened up along with treasury of tremendous opportunities. In terms of tariff rates in effect, the country is more liberal vis-à-vis many developing countries. With these credentials, foreign investors have leverage enough for profitability.

CHAPTER V
TREND AND STRUCTURE OF FOREIGN DIRECT INVESTMENT IN NEPAL

5.1 Trend of FDI in Nepal

This chapter is mainly concerned with trend and structure of foreign direct investment (FDI) in Nepal that has been analyzed into sector, year and country wise categorization of FDI inflow from FY 1990/91 to 2010/11.

FDI trend may be positive or negative in general. Since Nepalese economy is passing through a critical phase of low level equilibrium trap circumscribed by poverty and stagnation, and conflict and recession, FDI trend seems to be more fluctuating during the last 22 years. As political stability and peace are the sine quo non for attracting greater volume of FDI in Nepal, Nepalese economy has suffered from serious structural constraints accompanied by unprecedented political turmoil since many years. Present scenario reveals that Nepal has not been able to attract desirable size of FDI inflow within the country. Statistics show that FDI in Nepal is relatively on small proportion compared to other South Asian Countries. Available data for FDI reflects that 2108 foreign investment projects were approved in Nepal comprising all categories of industries, worth a total of Rs1522181.75 million. The total fixed capital is estimated to be Rs. 129116.39 million, while the total foreign direct investment (FDI) marked Rs. 68049.97 million as the end of 2010/11. FDI has provided employment to 155432 people. The Joint Ventures of India, China, USA, Japan, Germany and South Korea are prominent in the structure of FDI. China Joint Ventures accounts for 10.34 percent of total foreign investment.

New areas for foreign investment are opened up through the amendment of Foreign Investment and Technology Transfer Act, with an objective of providing necessary permission, services and facilities to the foreign investors through one door system. Foreign Investment Promotion Committee Working Manual, 2005 is under implementation.

Nepal is a rich country in sense of natural resources but Nepal's rich natural and human resources have not been optimally utilized, thereby referring to Nepalese people as "Poor in a rich country". Foreign Investment and Technology Transfer is essential for leading the nation's economic system towards the attainment of self- dependency and making it a robust, firm, dynamic and competitive through the optimum utilization of available natural and human resources.

The foreign investment helps bring capital, modern technology and managerial and technical skills, opens access to international market and promotes competitive business culture. Such improved business culture contributes significantly to the national development leading towards self- reliance and self- dependence, through the expansion of industrial development and internal revenue base.

5.1.1 Year Wise Flow of Foreign Direct Investment in Nepal

The trend of year wise flow of foreign direct investment in Nepal is erratic and unpredictable. The table 5.1 manifests that the number of foreign investment projects in Nepal marked 2108 for the period 1989/90 to 2010/11 A.D. The table shows that the magnitude of FDI was Rs. 398.51 million in FY 1990/91 which has increased to Rs. 10050.71 million in FY 2010/11. The highest foreign investment flow after 1989 A.D. was found to be Rs. 9811 million in FY 2008/09 followed by Rs. 9100 million in FY 2010/11, Rs. 6255.09 million in FY 2009/10. The main cause of this ups and down flow of FDI in Nepal may be the high risk due to the transitional politics and internal conflict.

Table 5.1
Trend of Foreign Investment in Nepal

ear	No. of Industries	Total Project Cost (Rs. Million)	Total Fixed Cost(Rs. Million)	Foreign Investment (Rs. Million)	Total No. of emp

e1989	58	5102.80	4271.60	449.56
	30	2438.19	2139.60	398.51
	23	863.56	690.74	406.28
	38	3508.17	2902.10	597.84
	64	17886.22	16210.81	3083.67
	38	3733.23	3175.66	1378.76
	19	1627.28	1247.85	477.59
	47	10047.47	9398.54	2219.86
	77	8559.25	6692.15	2395.54
	77	5569.38	5142.32	2000.28
	50	5324.42	4380.17	1666.42
00	71	2669.09	1910.24	1417.61
	96	7917.62	6122.49	3102.56
	77	3318.53	1559.59	1209.65
	74	4921.82	3608.25	1793.77
	78	4323.74	3775.86	2764.80
	63	1796.10	1149.49	1635.77
	116	4121.08	3296.95	2606.31
	188	3425.57	2650.56	3226.79
	212	20403.88	16896.27	9811.00
	231	9417.89	7530.02	6255.09
	171	15853.78	14987.98	9100.00
	209	11250.19	9375.46	10050.71
	2108	152181.75	129116.39	68049.97

Source: DOI/G0N/2010/11

5.1.2 Change of Foreign Direct Investment in Nepal

Table 5.2
Percentage change of Foreign Direct Investment

Fiscal Year	Foreign Investment (Rs. Million)	Change in Percent
Up To June1989	449.56	_
1989/90	398.51	-12.81

1990/91	406.28	1.91
1991/92	597.84	32.04
1992/93	3083.67	80.61
1993/94	1378.76	-123.66
1994/95	477.59	-188.69
1995/96	2219.86	78.49
1996/97	2395.54	7.33
1997/98	2000.28	-19.76
1998/99	1666.42	-20.03
1999/2000	1417.61	-17.55
2000/01	3102.56	54.31
2001/02	1209.65	-156.48
2002/03	1793.77	32.56
2003/04	2764.80	35.12
2004/05	1635.77	-69.02
2005/06	2606.31	37.24
2006/07	3226.79	19.23
2007/08	9811.00	67.11
2008/09	6255.09	-56.85
2009/10	9100.00	31.26
2010/11	10050.71	9.46
Total	68049.97	-

Source: D0I/GoN/2010/11

Table 5.2 and figure 5.1 show the percentage change in foreign direct investment. The foreign investment trend is not in smooth pattern. The then existing Maoist conflict and insurgency, affected the development activities of Nepal. After the initiation of the peace process in the country, the government has launched the new policies for the attraction of FDI. Thus, in current period, the size of the FDI has increased. However, the change in FDI is almost positive except in fiscal year 1994/95, 1995/96, 1998/99, 1999/2000, 2000/01, 2002/03 and 2005/06 due to the worst political condition, maoist conflict reaching peak point.

Figure No 5.1

5.1.3 Increase in Employment Creation Due to Foreign Direct Investment

The table 5.2 shows the percentage change in employment creation due to foreign direct investment.

Table 5.3

Percentage change of Total No of Employment

Fiscal Year	Total No. of employment	Change in Percent
Up To June1989	10586	_
1989/90	9515	-10.12
1990/91	2974	-68.74
1991/92	5615	88.80
1992/93	13873	147.07
1993/94	4734	-65.88
1994/95	2386	-49.60
1995/96	8032	236.63
1996/97	9347	16.37
1997/98	4336	-53.61
1998/99	2146	-50.51

1999/2000	4703	119.15
2000/01	6880	46.29
2001/02	3731	-45.77
2002/03	3572	-4.26
2003/04	2144	-39.98
2004/05	5559	159.28
2005/06	7358	32.36
2006/07	7358	0.00
2007/08	10677	45.11
2008/09	11108	4.04
2009/10	7848	-29.35
2010/11	10887	38.72
Total	155432	1327.68

Source: D0I/GoN/2010/11

Table 5.3 demonstrates the increasing trend of employment creation due to FDI. In FY 2005/06, the employment creation highly increased due to adoption of labor intensive technology by a large number of industries in this year. The employment creation highly increased in FY 1993/94 due to the adoption of new economic liberalization policy in that year. In Maoist conflict period (1996/97 to 2006/07), the government of Nepal could not attract the large amount of FDI. Even after the people's movement 2006/07, government of Nepal could not attract the large amount of FDI due to the lack of political stability, appropriate policies etc.

5.2 Structure of Foreign Direct Investment in Nepal

The overall FDI inflow to Nepal from the beginning up to FY 2010/11 has been analyzed on the basis of sector, category, country, scale and district.

5.2.1 Structure of FDI District-Wise in Nepal

The table 5.4 shows the distribution of FDI district wise in Nepal

Table 5.4
Number of Industries Approved for Foreign Investment by District (Upto F.Y. 2010/11)

S.N.	District	No of Industries	Foreign Investment (Rs. million.)	Percent of Total FDI	No of Empl
1	Morang	26	1661.47	2.44	
2	Sirahaa	4	1913.20	2.81	
3	Parsa	41	2052.85	3.02	
4	Bara	43	2072.08	3.04	

5	Dhading	9	2171.00	3.19	
6	Surkhet	2	2187.00	3.21	
7	Makwanpur	49	2321.73	3.41	
8	Rupandehi	29	2958.59	4.35	
9	Kaski	116	4130.58	6.07	
10	lalitpur	261	7101.97	10.44	
11	Kathmandu	1176	23477.00	34.50	
	Total	2108	68049.97	100.00	

Source: DOI/GoN/2010/11

The table demonstrates top eleven districts of the foreign investment. Out of the total investment more than one third of FDI based industries are established in Kathmandu valley. The possible reason for this is that Kathmandu has relatively safe environment than other district of Nepal. Foreign investors are interested to invest their property in relatively safe places. Similarly, other industrial cities like Pokhara, Butwal, Hetauda and so on are second choice destination of foreign investors.

5.2.2 Structure of foreign Direct Investment Sector Wise in Nepal

Categorically, there are seventeen sectors of the industries which include agriculture, manufacturing, food, Beverage and Tobacco, Textile and real Garment, Wood and Wood product and so on. The amount of foreign investment in each of these industrial sectors is shown in the table 5.5.

Table No 5.5
Sector Wise Foreign Direct Investment in Nepal

Sector	No. of Industries	Percent of total Industries	Foreign Investment(Rs in Millio
Agriculture & Forestry	91	4.32	1975.
Manufacturing	715	33.92	27321.
Food, Beverage & Tobacco	106	5.03	3499.
Textile & Rea. Garment	256	12.14	6304.
Wood and Wood Product	19	0.90	457.
Paper and Product	42	1.99	541.
Chem. & Pl. Product	122	5.79	4762.
Non-Met Mi. Product	33	1.57	6451.
Basic Metal Product	26	1.23	729.
Febric Metal, M/C &	88	4.17	4439.
other Manufacturing Units	23	1.09	235.

Electricity, Water, Gas	50	2.37	13579.
Construction	79	3.75	4815.
Hotel & Resort	565	26.80	8688.
Transport & Communication	82	3.89	2060.
Housing & Apartments	25	1.19	339.
Service Industries	501	23.77	9268.
Total	2108	100.00	68049.

Source: DOI/GoN/2010/11

The table 5.5 indicates that there were 715 manufacturing units receiving FDI. Manufacturing sector received top priority to attract FDI to the level of Rs. 27.32 billion, which was 33.92 percent of total FDI during the period 1990/91-2010/11. This was followed by Hotel and Resort (26.8 percent), Service (23.77 percent) and Textile and Readymade Garment (12.14 percent) with their respective amount of foreign investment of Rs8.67 billion, Rs 9.27 billion and Rs 6.3 billion. In terms of employment, Manufacturing sector provided highest number of employment to 50.73 percent of people followed by Textile and Readymade Garment (26.1 percent) and Hotel and Resort (16.23 percent).

Table 5.6
Number of Industries Approved for Foreign Investment by Category (Up to F.Y.2010/11)

Category	No. of Industries	Share in Total FDI(in percent)	Foreign Investment(Rs. Million)	Total No
Agriculture	60	1.31	893.29	
Construction	42	4.06	2762.81	
Energy Based	47	21.34	14518.8	
Manufacturing	712	37.61	25595.9	
Mineral	36	4.27	2904.24	
Service	650	19.07	12974.7	
Tourism	561	12.34	8400.34	
Total	2108	100.00	68050	

Source: DOI/GoN/2010/11

Table 5.6 shows the distribution of FDI industries in sector wise. Out of total industries, 712 industries have been established in manufacturing sector accounting 37.61 percent of total FDI inflow of Nepal and providing employment opportunity to 78409 people. More than 90 percent of the industries are established in Manufacturing, Service and Tourism sector related industries. This indicates that the most of the foreign investors are interested to invest in these sectors because of the relatively larger size of market of them. Similarly, manufacturing industries provided the highest employment (78409) through FDI in Nepal which was 50.44 percent of total employment. The other major categories in terms of FDI that provided higher number of employment were Service (20.67 percent) and Tourism (16 percent).

5.2.3 Number of Industries Approved for Foreign Investment by Scale Wise

Table 5.7

Number of Industries Approved for Foreign Investment by Scale Wise (Up to F.Y.2010/11)

Category	No. of Industries	share in total FDI	Foreign Investment(Rs. Million)	Total No. of Employment
Large	185	69.66	47401.19	42841
Medium	248	12.23	8321.21	31455
Small	1675	18.12	12327.58	81136
Total	2108	100.00	68049.98	155432

Source: DOI/GoN/2010/11

The Table shows that the inflow of foreign direct investment has mostly been concentrated in small scale industries in which there are 1675 total industries, which is equal to 79.45 percent. The medium and large-scale industries occupy second (11.8 percent) and third (8.8percent) place respectively. Similarly, in terms of employment, again small industries come front with 52.2 percent of total employment followed by large scale industries (27.6 percent) and Medium scale industries (20.2 percent).

5.2.4 Number of Industries Approved for Foreign Investment by Country of Origin

Table 5.8

Number of Industries Approved for Foreign Investment by Country of Origin (Up to F.Y.2010/11)

S.N.	Country of Origin	No of Industries	Foreign Investment(Rs. Million)	Share in Total FDI	Total No. c
1	Brazil	5	520.83	0.77	
2	Netherlands	34	588.89	0.87	
3	Hong Kong	19	740.84	1.09	
4	UAE	5	886.31	1.30	
5	Germany	79	926.72	1.36	
6	Bri.Virg.Is	3	961.43	1.41	
7	Norway	12	1135.83	1.67	
8	Japan	154	1171.24	1.72	
9	Singapore	23	1505.39	2.21	
10	UK	103	1539.71	2.26	
11	Canada	25	2166.54	3.18	
12	Mauritius	5	2845.00	4.18	

13	S.Korea	149	4320.89	6.35	
14	USA	174	4955.90	7.28	
15	India	501	32390.31	46.91	
16	China	401	7036.17	10.34	
	Total	2108	68049.97	100.00	

Source: DOI/GoN/2010/11

Table 5.8 shows that the number of Indian joint venture projects was highest (501) in Nepal, followed by China (401), USA (174), Japan (154), South Korea (149), UK (103), Germany(79), France (49), Australia and Netherlands (34 each) and other countries(790). The magnitude of FDI from India was Rs 32.4 billion, which was 46.91percent of total FDI. The size of FDI from major countries such as China marked Rs7.3 billion (10.34percent), followed by USA Rs 4.96 billion (7.28percent), South Korea Rs 4.3 billion (6.35percent) of the total foreign investment. Indian joint ventures provided the highest employment through FDI in Nepal, which was 36.29 percent of the total employment. The major countries in terms of FDI that provided considerably higher number of employment were the China (15percent), USA (7.9percent), UK (5.5percent) and Japan (4.3percent).

CHAPTER VI
PROSPECTS AND CHALLANGES OF FOREIGN DIRECT INVESTMENT IN NEPAL

6.1 Prospects of FDI in Nepal

6.1.1 Background

Nepal is one of the attractive destinations for foreign investors due to various reasons. First of all, from location point of view there is tremendous production opportunity for meeting domestic demand. Nepal's attractiveness increases for FDI as a strategic location between India and China. The recent political change has created new environment for the foreign investors in the country because there is a good sign of political stability and peace in the country after the popular people movement of 2006. Nepal is supposed as attractive location for startup new business opportunities especially in the area of tourism, art and crafts, herbs and information technology. Nepal has had a continuous attachment to neutrality in foreign relations, membership to WTO, enactment of favorable policies and laws, availability of wide range of human resources, latest infrastructure in communication, stable currency backed by strong balance of payments, exclusive protective right for foreigners property. These entire situations make Nepal a strategic place to invest for foreign investors.

Nepal is a second richest country in the world in the matter of water resources. Data reveals that theoretical viability of generating hydroelectricity in Nepal is nearly 83000MW and economically or commercially 42000 MW. Nepal possesses wide range of investment prospects which if exploited prudentially would turn out to be highly profitable and beneficial to both investors and general masses including government itself in terms of revenues, prices, terms of trade, balance of payment and employment generation through which the objectives of poverty alleviation and attaining higher rate of growth of the country could be achieved. Nepal must build up her competitive capacities to grab the global market by supplying the goods and services in low prices with standard quality maintenance, which would be made possible only if unexploited sectors are brought optimally into use. For the proper exploitation of these unexploited sectors, Nepal needs more funds and modern machines and machineries and as such must be rendered to foreign investors, firm or corporations to operate singly or in Joint Ventures with domestic firms.

There is no doubt to say Nepal is one of the ideal destinations for foreign investors to invest. But there are still so many obstacles existing in the country like conflict in the different parts of Terai and some areas of eastern Nepal etc. If the government addresses the proper demand of opponents in the right time, it will be further beneficial for attracting larger volume of FDI in the country. Some major prospects of foreign direct investment (FDI) in Nepal are discussed below:

6.1.2 Hydro-Power

Economic indicators reveal that Nepal is one of the underdeveloped countries of the world but in terms of natural resources, Nepal is regarded as a rich country, especially in terms of water resources. It is often argued that water resource is the backbone of Nepalese economy, which could be instrumental to provide a new lease of life to sinking economy. It is believed that nearly 42000 MW. Hydroelectricity can be generated in the commercial level. Nepal possesses more than 6000 rivers, many fountains, lakes, ponds and other sources of water. Most of the rivers flow from northern part of the country to the southern part with very high velocity. Therefore, it is very suitable to generate hydroelectricity in different parts of the country.

At the end of FY 2011/12, a total of 705.57 MW of hydropower (0.8 percent of total potentials) was generated from various hydro- power projects. Out of total generated hydropower 705.57 MW is connected in national grid and remaining electricity generated by other medium hydropower centers is providing this service in various local areas. All these data indicates that Nepal has not been able to harnessing water resources properly. The problem of power generation is not limited only to financial resource but equally important inhibiting factors are the lack of skilled human resources, scientific equipments and instruments and lack of advanced technology and technical know- how.

Government has formulated the Hydropower Development Policy 2001 which has provided the basis for the involvement of private sector in the hydro- power projects. This policy has also provided the appropriate incentive to attract foreign direct investment towards the generation of hydro- electricity. Since Nepal is wedged between two populous countries of the world China and India, there are high prospects of exporting hydroelectricity to these countries. Therefore, to intensify the power generation there is high need of collaborating domestic investors with the foreign investors.

6.1.3 Tourism Industry

Tourism is another important sector of the economy and regarded as a source of hard currency. Therefore, economic development of the country also relies on the proper development of tourism industry. Nepal possesses a lot of opportunities for tourism such as;

Vast untapped potential in developing both Hindu and Buddhist tourism, heritage tourism, white water tourism, eco- friendly tourism health tourism, mountain tourism, Safari tourism, adventure tourism and ethnic tourism, Image of ever friendly and smiling people, Homeland of brave Gurkha, situated between the word's most populated and emerging economies, quality manpower available in tourism sector, the first nation in South Asia to receive Approved Destination by China, NRNs living abroad interested to invest in tourism industry and so on

The recent political changes has also created good environment for tourism sector. There are still some challenges to address the socio-economic problems existing in the country. In order to promote foreign investment in tourism industry, investment in travel, trekking, rafting and pony trekking business have been opened for foreigners. Despite of all these potentials, Nepal still lacks sufficient tourism spots, luxurious hotels and parks in the tourist area due to the unavailability of funds. To mitigate these physical problems, Nepal must shake or join hands with foreign governments, business firms and individuals in order to fulfill the ultimate goal of the country to make the Switzerland of Asia in one hand and to create sound physical infrastructure and other facilities needed for the tourist on the other. Present data reveals that 561 tourism industries based on FDI are operating in Nepal till the FY 2010/11 (Department of industry- 2011) with the employment generation of nearly 24362 people. In the context of FDI, tourism sector received the third priority that leveled Rs. 4874.06 million (15.19percent of total FDI).

Hence, there is greater prospect of FDI in the tourism industry. But Nepal is still receiving very low amount of FDI in tourism sector. In order to promote FDI into tourism sector, peace, political stability, good administration, good governance, investor's friendly policy are crucial.

6.1.4 Electrical and Electronic Industries

The electrical and electronics industry sub-sector in Nepal is still in an early stage of development. According to the annual survey of manufacturing establishments 1994/95, there were 37 firms operating in formal sector activities of which 33 were engaged in electrical industries and 4 in electronic industries.

The domestic demand for electrical goods is expected to increase with expansion of the electric power generation system, telecommunication and radio and TV broadcasting. According to preliminary estimates, significant demand exists for heaters, radio, TV and communication equipment and apparatus, electrical appliances and apparatus, batteries, wines, cables, plugs, switches, lighting fixtures and so on. Prospects for setting up industries to produce these items are, therefore, promising.

Nepal offers very good prospects for the development of electronic assembly industries. The low cost of labour would give Nepal a competitive edge over her locations in South and South East Asia. The labour force has the ability to master quickly assembly operations, which involve use of hand tools such as screwdrivers, pliers etc. In addition to the advantage of low cost labour, Nepal provides a conductive environment for dovetail assembly schedule with the production of finished goods in overseas locations on a planned basis. Assembly industries that use airfreight for import of components and export of assembled units should be feasible. The products should have a high value to weight ratio. Kathmandu, the capital, has good air connections to Europe through Frankfurt, London, Paris, Amsterdam, Vienna and Moscow and to the Far East through Singapore, Bangkok, Hong Kong, Sanghai and Osaka.

Some of the electronic industries which could be established in Nepal are computer keyboard assembly, single and double side circuit boards, circuit board stuffing and text service, cable harness assembly, domestic mains multi- socket power strips and similar assembly requiring a high labour content. Therefore, FDI can be attracted in the country for the establishment of electrical and electronic industries.

6.1.5 Mineral Exploration and Exploitation

Nepal is rich in mineral resources. Preliminary geological surveys have revealed that there are varieties of mineral ores, natural gas, coal etc. deposited in various parts of Nepal. However, the extent and possibility of commercial utilization of those mineral deposits are yet to be known.

The mineral resources that could be commercially exploited have been identified as limestone, dolomite, talc, silica, clay, building and construction stone, iron- ore, lead- zinc, petroleum and natural gas.

Iron ore deposits have been found in various parts of Nepal. About 10 million tons of iron ore deposit is estimated in Fulchoki. Similarly, Labdikhola (10 million tons of iron ore), those (8.4 million tons), Jiwang (1 million ton), Kulekhani, Godawari, Bhaise etc are important sites for iron deposits. More than 30 million metric tons of iron ore deposit is estimated in various parts of Nepal.

Similarly, copper is estimated to be found in about 30 places within Nepal including Budhakhola (Bandipur), Gyaji (Gorkha), Arkhaule (Makanwanpur), Nangre (Nuwakot), Wapsa (Okhaldhunga), Siddhakhani (Illam), Bhutkhola (Tanahun) and others.

Likewise, Mica is found in several places such as Bajhang (Chainpur), Doti, Bhojpur, Lamjung Nuwakot, Dhankuta and so on. Limestone is also found in different parts of the country. The places where limestone is found are-Chovar (ktm), Jogimara (Dhading) Bhaise, Udayapur and so on. The total deposits in these places are -8 million tons, one million tons, 25 million tons, and 60 million tons respectively. Moreover about 30 million tons of limestone in Surkhet and 10 million tons of limestone in Dhankuta are found to be deposited.

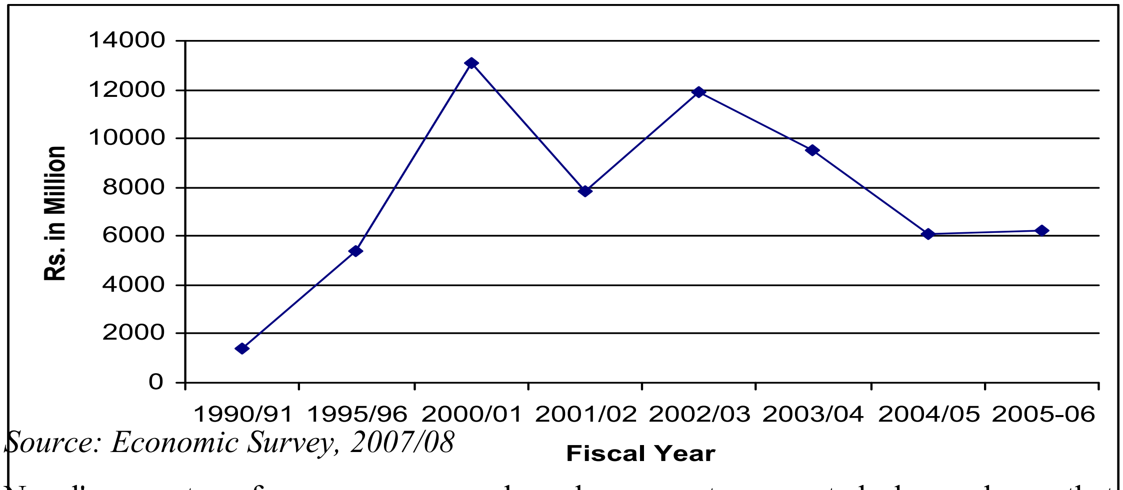
Lead is also found in the different parts like Ganesh Himal (0.5 million tons of lead is expected to be found), Arkhaule and Durlang (Makawanpur) Rasuwa, Baglung, Phulchoki, Tripling (Nuwakot), Salmor Valley (Bajhang) and so on. Slate is deposited in Bandipur, Bajhang, Pokhara and some other places of the country. Similarly, Dailekh, Muktinath (Mustang), Phyuthan, Kathmandu, Dhangadhi, Chisapani are some potential areas for natural gas and petroleum deposits. Other notable minerals like magnesite, zinc, coal, nickel, gold, graphite, marble, pyrite etc. are also deposited in various parts of Nepal.

For the exploration and exploitation of all these mineral resources, sufficient capital, efficient manpower, scientific technology, modern equipments are needed. But Nepal is lacking most of these requirements. In this context, foreign direct investment is crucial for the proper exploitation of the mineral resources which helps to finance the required capital, technology and modern equipments needed for the proper exploration and exploitation of mineral resources. Natural gas deposit in KTM Valley can be utilized for domestic and industrial uses. Mineral exploration and exploitation in some of the areas identified above offer promising prospects for foreign direct investment.

6.1.6 Readymade Garments

Nepal's export performance over the readymade garment has significantly increased in the post democratic period from a low export value of Rs. 1399.2 million in 1990 to Rs. 13124.7 million in FY 2000/01. But in FY 2001/02, export of readymade garment decreased to Rs. 7833.0 million. In FY 2005/06 export of readymade garments reached to Rs. 6204.10 million.

Figure 6.1
Export of Readymade Garments (1990/91-2005/06)



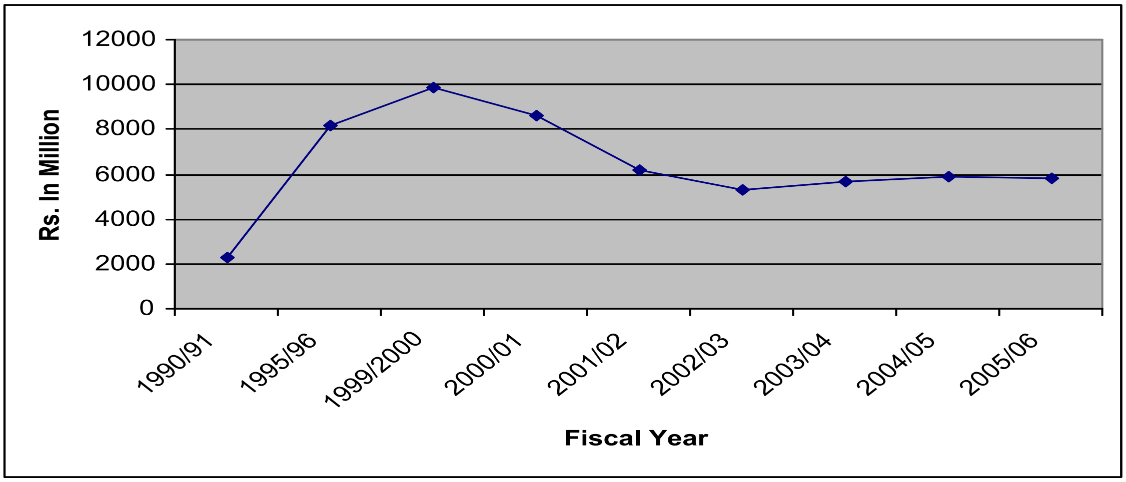
Source: Economic Survey, 2007/08

Nepal's export performance over readymade garments presented above shows that export of readymade garment shares larger volume of total export of the country. USA's preferential facility under MFA has contributed for better performance. The potentiality of this industry in the international market is still high due to the abundant availability of low wage rates and low setting up costs. However, the potentiality has not been absorbed in its fullest scale due to the lack of advanced technology, skilled human resources, efficient administrative mechanism and market networks. Foreign collaboration from the investors of foreign industrialized country is necessary to tap the fullest scale for the expansion of this industry

6.1.7 Carpet Industries

Figure 6.2

Export of Carpets (Hand Knotted Woolen) During (1990/91-2005/06)



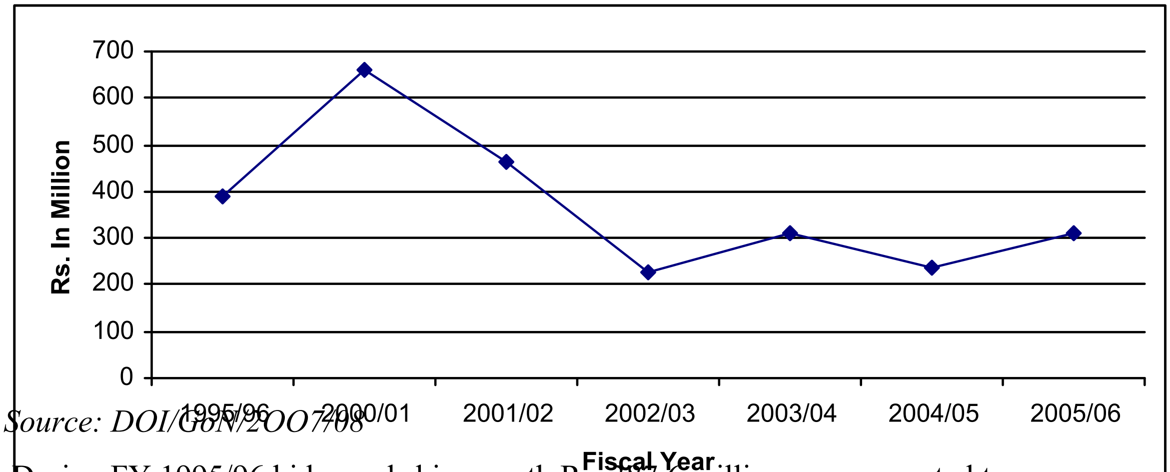
Source: DOI/GoN/2OO7/08

Export of carpets has occupied the second position in Nepal from very beginning. The export of carpet was Rs. 2318.5 million in FY 1990/91 and reached to 9842.1 in FY 1999/2000. In FY 2005/06, the export of carpet reached to Rs. 5838.70 million. The export of this industry is heavily concentrated in the European markets. The potentiality of this industry would further be increased if it is produced in the large scale with the affiliation of foreign firms of having large market networks, advanced technology and efficient management. In the recent time, the mixing of low quality thread and involvement of child labour in the carpet are responsible to degenerate the international credit of this industry. To gain the international credit and produce in low cost, attempts are to be made to avoid child labour and adulteration of lower quality threads by employing advanced tools and techniques and efficient management mechanisms with foreign collaboration, the competitive edge of this industry in international market can easily be gained as we have lower wage rate and low setting cost of plants.

6.1.8 Leather Goods Industries

Leather sector in Nepal is considered as one of the most potential areas in terms of its revenue addition and export possibility. In Nepal, leather sector consists of three main areas; leather processing, leather goods manufacturing and foot wear production. As of now leather sector raw material in different parts of the country gives a greater scope for industrial production of leather and leather goods.

Figure 6.3
Exports of Hides and Skins (1995/96-2005/06)



Source: DOI/GoN/2OO7/08

During FY 1995/96 hides and skins worth Rs. 387.6 million were exported to overseas countries only. But in FY2000/01, the export of hides and skins increased to Rs. 658.4 million and reached Rs. 310.40 million in FY 2005/06.

With regard to leather goods producing industries in the country, about 100 leather based industries are in operation. Of which one fourth OF producing leather goods and the rest are on footwear. However, most of the leather based industries are operating on micro-scale using traditional skills and technologies. Taking into consideration the availability of raw materials within the economy there exist greater prospect for the development of leather based industries in Nepal. However it is necessary to improve and diversify the leather goods to be produced in the country. This requires for enhancement of skills and technologies required for quality products as well as dissemination of information of potential export markets.

Based on above stated background information, leather sector could be considered as one of the potential areas with diverse possibilities for enhancing Nepal's industrial sector. This requires for introducing new technologies and information or export market opportunities. Therefore there is greater prospects of attracting FDI in the leather based industries in Nepal.

6.1.9 Air Services

There are 51 domestic airports in Nepal and some of which are all weather and some fair weather airports. The government has embarked on open- sky policy permitting private airlines to operate domestic as well as international air services. 16 international airlines are operating their services in Nepal. Private helicopter services are also coming up in Joint Venture. As Nepal is assumed as one of the ideal destinations for tourism and still most parts of the country are lacking airports facilities, private investment with foreign collaboration would be beneficial for the development of tourism sector also. Therefore, Nepal possesses grater prospects of attracting foreign investment in the further development of air services.

6.1.10 Pharmaceutical Industries

Nepal has a large and growing demand of drugs and pharmaceuticals that are being met by domestic production about 20 percent of the requirements and the balance is met by importation. The market for pharmaceuticals is estimated to be more than Rs. 5,000 million. India based national and multinational companies supply much of the demand. The demand for pharmaceutical is expected to increase significantly over the next decades due to improvement of modern health care facilities and establishment of a good transportation network within the country.

Good prospects exist for the establishment of a few industries producing pharmaceuticals and drugs. The best areas for investment are in the production of the major high volume product lines of Essential Drugs out of National list of essential drugs, categorized by Ministry of Health, Department of drug Administration.

6.1.11 Agro and Forest Based Industries

Nepal is rich in bio-diversity. Extraordinary similarities and diversities can be seen here. Nepal comprises diverse topographical structure, multitude soil variety and varied climatic environment because of which various biotic and abiotic factors are capable of being existent here. The existence of these living and nonliving beings lets Nepal to undertake various kinds of manufacturing, textile, tourism , construction, processing and service industries operation of which supplies basic human needs such as medicine, food, clothes to highly deluxe goods like cosmetics, beverages etc. The major possible investment sub- areas under this heading may be those indicated below.

i) Medicinal and Aromatic Plant

Despite the huge possibility of producing and processing drugs and cosmetics within the national territory, Nepal is forced to import these items. The record explored hither to manifests that we have more than 700 species of medicinal and aromatic plants which were, though collected from time immemorial for various purposes, encouraged to put into commercial use since the establishment of Royal Drugs Research Laboratory in 1962. Till now nearly 300 species have been screened and studied. Recently it has been considered important to commence commercial plantations of medicinal plants such as atropa belladonna and aromatic plants palmarosa, lemon grass, citronella and menthe arveniss. The DOI manual points out the good prospects for the cultivations and processing of chrysanthemum cinerariaefolium (pyrethrum), claviers purpurea (ergot), digitalis lanata, eucalyptus, camaldulenis, glycyrrhizin flabra, mucuna, pruriens, piper longum and valeriana wallichi.

The medicinal and aromatic plants can be exploited for the production of essential oils, medicines, traditional medicines, cosmetics and perfumes, herbal teas, and natural health products. The production of these materials releases the foreign exchange for government to import capital goods and other indispensable materials production of which in the national boundary is naturally denied. Hence, there exists a good prospect of FDI for the production of products based on medicinal and Aromatic plant.

ii) Flower Seeds

As Nepal possesses wide variety of agro climate and easily trainable labor force, the investment in this sector with good expertise and technology would render the investor to make good profits by producing various kinds of flowering seeds at lower cost and thereby obtaining good international market. In Nepal as per the record of DOI manual in the summer season the flower seeds grown are zinnia, marigold, gladiolus, salvia, dahlia, canna and in the winter, the flowers like bellies, dianthus, pansy, antirrhinum, helichrysum, aapaver, verbena and so on are grown. The flower seeds identified as highly potential in Nepal are chrysanthemum, morifolium, elshoitzia, californica, and lathyrus odoratus.

Commercial production and export of flower seed require maintenance of high technical standards and good supervision which at present Nepal lacks and as such in needed to attract foreign investors to develop this agro- business in Nepal.

iii. Fruit Processing

Nepal enjoys high opportunities for the cultivations of variety of fruits such as apple, banana , pineapple, mango, orange, grapes, pear, Gurva, peach, citrus, myroblan, pomegranate, plum, apricot and so on processing of which yields good prospects for getting export market.

Commercial fruit development programme have been launched to increase the area under cultivation.

In Nepal there have not been any exhaustive efforts towards the development of fruit production and processing. Some small fruit processing industries are engaged in the production of fruit Squash, fruit, juice, jams, jellies, marmalades, and fruit salad. However, we are not able to exploit the opportunities in full scale because of the lack of trained manpower, advance technology and market networks and thus this sector also keeps good prospects for foreign investor to focus their investment on.

iv) Tea Development

In Nepal, tea growing areas are mainly concentrated to the eastern part of Nepal such as Illam, Jhapa, Pachathar, Terhathum and Dhankuta, almost adjacent to the world renowned tea gardens of Darjeeling in India.

The government has accorded high priority to increase tea production in the Eastern Districts with a view to achieving self- sufficiency in tea and to export high quality tea to overseas markets. In order to encourage tea cultivation, an exemption from the land ceiling has been provided together with attractive incentives. Good prospects exist for the production of quality orthodox tea in Nepal similar to the Darjeeling tea produced in India. Improved cultural practices, latest technical know-haw and efficient management systems are required to bring the tea industry in line with other tea producing countries in the region.

v) Processing of Spices

Nepal produces a large variety of spices namely known as ginger, timur, large cardamom, turmeric, medicinal spicy herbs, Himali cummin cinnamon, garlic and variety of chilies. Most of the species cater to domestic demand and some items like Chili, turmeric, garlic, ginger and cardamom are exported to India and other markets in a raw form.

Good prospects exist for the setting up of spice processing industries using automatic, dehydration, cleaning and packing technology to export the products in the international market. Foreign collaboration is required to provide technical know-how for processing and packaging and to secure marketing outlets.

vii) Coffee Processing

Coffee beans are produced in Western Development Region of the country. The planting of coffee has taken impetus since some last years back in other regions of the country as well.

However, the tempo of it has not taken place as fast as it should have been because of the lack of institutions and other promotional measures. The felt need is also in the direction of getting market and appropriate price. Establishment of small-scale coffee processing plant would encourage the farmers to grow more coffee beans. This industry can substitute the import and also export high quality chemical free coffee. Investment in this sector from foreign firms, individuals and corporations would prosper the coffee business in Nepal.

vii) Integrated Dairy Industry

Nepal has a long tradition in dairy farming. In fact, Nepal has in the past exported milk products to India and Tibet in the form of ghee and butter. Nepal could develop the dairy industry to meet domestic demand as well as renew exports to India and other markets. Good prospects exist to produce Yak Cheese in high altitude for export to overseas markets. The topographical and climatic conditions are suited to dairy development. Integrated dairy industry incorporating related activities such as improved livestock, cattle feed production and processing of milk products would offer promising prospects for profitable investment. Such a project could be built up on existing small dairy units spread around the country through and well organized programme of extension services to improve livestock breeds and an efficient collection system for processing in a central unit.

6.2 Challenges for FDI in Nepal

Although the country does enjoy high prospects for FDI, it is not free of challenges. The major challenges are as follows:

1. **Transitional politics**

After the decade-long war, Nepal, in 2006, stepped into the era of peace. However, its peace process is taking longer than expected at its outset. As it happens in a situation of major transitions, the overall environment in the country is not yet out of fragility for the same reason. Obviously, in such times political agenda vis-à-vis economic agenda gets smaller space while prioritizing public policies. The government seems to hold great passion for the country's economic agenda; as a result, positive message is held out to prospective investors. However, they are still concerned about the amount of uncertainty associated with the transitional politics. In such a circumstance, feeling of insecurity stems from elements of uncertainty.

2. Acute power crisis

The country has been under the grip of acute and pathetic power crisis for a couple of years. It has forced, on one hand, a shift towards diesel option for meeting the power gap in business sector and, on the other, a continuous downturn in the country's cost competitiveness. As a result, the cost of production has risen due to costlier power option that is in effect now. Unless this power crisis is soon resolved, the situation would become unattractive for prospective investors.

3. Good governance

For years, the country's governance has been rated as low performing. Several global indices undertaken by Transparency International on corruption issue, by the World Bank on Doing Business issue, and by Global Economic Forum on Global Competitiveness all consistently echo the voices that paint the country in a bleak picture. Many studies reiterate good governance as a basic condition to lure possible investment. This argument is further strengthened by globalization of investment so that investors can enjoy a world sans border so as to fly any distance. In such a backdrop, one has to be competitive enough with better governance vis-à-vis other countries competing for the same opportunity.

4. Implement ability

'Implement ability' of public policies and institutional bases alone are not sufficient conditions for attaining the set goals for FDI. Many internationally carried out implementation research works have come to the conclusion that a big part of success largely depends on country's specific 'implement ability'. From this vintage, bureaucrat's attitude and corruption-free readiness to cope with the agenda, their capacity to perform, coordination between different ministries and agencies involved, and resource commitment are some instances pretty relevant to the Nepalese case. In this, a happy marriage between government-to-government (G2G) and business-to-business (B2B) approaches can be an extra mileage to go for. On top of all these, a persistent and visionary leadership, which is business friendly, is the highest order of implement ability. Finally, a combination of Implement ability and maneuverability is the call of the day.

5. Labour unrest and law and order

In the past, the labour unrest and the law and order situation was daunting for the FDI in Nepal; the current situation is fast moving in the positive direction. However, a more accelerated progress in this regard would better aid the FDI. Besides, no more occurrence of similar case will have to be allowed. Through this, the country shows a positive signal about FDI-friendly environment to prospective investors.

6. Higher transaction cost

Higher transaction cost in trade Nepal, as an LDC suffers from difficult geographical terrain, uncompetitive transport sector, unreliable transport infrastructure, weak telecommunication services, weak industrial infrastructures, i.e. Special Economic Zone, Inland Container Depot/Container Freight Station. These have cumulatively made the transaction costs in Nepal far higher than those of

Neighboring countries.

7.Domestic regulation for service sector not as per the WTO commitments Nepal, upon its accession to the WTO in April 2004, submitted the schedule of specific commitments in service sectors in 2006. The eleven service sectors include business services, communications services, construction and engineering services, distribution services, educational services, environmental services, financial services, health-related and social services, tourism and travel-related services, recreational, cultural and sports services and transport services. In accordance with the said commitments, the country has opened seventy sub-sectors of the eleven service sectors in many respects. One of the keys is equity for foreign investment, which is opened up to 80 per cent in some subsectors. This move seems to be broadening the avenue for FDI; however, it is yet to be fine-tuned, especially in the domestic regulation part, as per the WTO commitment. Nevertheless, a huge room for FDI is likely to open in the country provided that the course of domestic regulation is reframed. Yet, this part also remains a challenge for a while.

Conclusion

Despite various interlocked issues, controversies and transitional political circumstances, Nepal is well-positioned among low-income economies in regard to emphatically move towards its economic and social prosperity. Having a set of comparative advantages the country abounds with numerous positive attributes that may easily trigger economic activities. Its trade policy and strategy has succinctly identified such sectors having comparative advantages. Prudent monetary, fiscal and trade policies have created a modern and stable macroeconomic framework with the potential to create a dynamic, competitive and investment-friendly economy in the decades ahead. Above all, conclusion of political settlement, labour unrest and power crisis are the critical factors. However, political agenda and economic agenda will have to move in a more synchronized way. Provided these conditions are met, a potential influx of FDI is at the country's doorstep and knocking its door. To this end, a tripartite benign coalition of political, business and bureaucratic leaders is required to come into full action in a business-friendly environment. The whole gambit, of course, ends with aggressive marketing that Nepal is now ripe for hosting FDI.

CHAPTER VII
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summary, conclusion and recommendations. The whole chapter is divided into three sections. The first section deals with summary while the second section deals with key finding and the third section deals with recommendations.

7.1 Summary

The key goal of developing countries like Nepal is to attain high economic growth rate and reduce poverty with macroeconomic stability. The Three-year (2010-1013) Interim Plan aims at attaining GDP growth rate of 5.5percent and reducing overall poverty ratio form 25percent to 21percent. In order to achieve these targets, foreign direct investment (FDI) is viewed as an engine for economic development of Nepal as it provides required capital and technology and generate employment opportunities and thus, idle resources get utilized which, in turn, helps to expand production capacities of the country and also opens the access of products to world markets. Thus, foreign direct investment plays the vital role to pave the way for economic development for underdeveloped countries like Nepal.

Given the importance of foreign direct investment, this study has specific objective of analyzing the nature and trend of foreign direct investment and its prospects in Nepal.

In order to analyze the trends of foreign direct investment in Nepal, different tools like graph, table, figure etc. have been used. The trend and structure of foreign direct investment has been analyzed by sector, year and country for the period from FY 1990/91 to FY 2010/11.

The amount of FDI was Rs. 466.84 million in FY 1990/91 which has increased to Rs. 10050.71 million in FY 2010/11. According to DOI records, the highest foreign investment flow after 1990 was Rs. 10050.71 million in FY 2010/11. Till now, Nepal has been able to attract FDI of only Rs. 68049.97 million which is very low in comparison to other countries. Available data for FDI reflects that 2108 foreign investment projects were approved in Nepal comprising of all categories of industries, worth a total of 1522181.75 million. The total fixed capital is estimated at Rs. 129116.39 million at the end of fiscal year 2010/11. FDI provided employment to 155432 people. The Joint Ventures of India, China, U.S., Japan, Germany and South Korea are prominent in the structure of FDI.

Categorically, there are only seven industries based on FDI in Nepal which include Agriculture, Manufacturing, Tourism, Construction, Energy-based and service. The inflow of FDI was found highest in manufacturing sector that marked Rs. 27321.7 million (33.92percent) while FDI inflow was found lowest in mineral-based enterprises that marked Rs 14518.8 million at the end of 2010/11.

By type the flow of foreign direct investment consists of equity, equity plus technology transfer and technology transfer only. According to DOI, the inflow of FDI in Nepal has mostly been in the form of equity investment that runs 1111 industries following by technology transfer (56) and equity investment and technology transfer (51).

By scale flow of FDI reflects that most of FDI has mostly been concentrated in small scale industries in which there are 1675 total industries followed by medium scale industries (248) and large scale industries (185).

Nepal has formulated laws and policies governing FDI. Many facilities and incentives have been offered in order to maximize the location advantage of foreign investing firms. In this regard, the Foreign Investment and Technology Act 1981 was enacted. The salient futures of the Act were, a) Industrial units set up under the Act would not be nationalized; and b) Industrial units set up under the act would receive the same facility, concession and protection as provided by the Industrial Enterprise Act, 1982. Similarly, Foreign Investment and Technology Transfer Act, 1992 came into existence to attract technology transfer and foreign investment. According to the Act, foreign investment implies the investment made by a foreign investor in any industry as investment in share (equity), reinvestment of the earnings derived from the investment in share (equity) and investment made in the form of loan or loan facilities.

The tenth plan (2002-07) accorded priority to foreign investment. According to it, measure would be undertaken to attract more FDI in the areas of comparative advantage to enhance competitiveness. Similarly, the recent Three Years Interim Plan also aims to raise the inflow of FDI. For this, this plan has adopted some policies like; i) FDI will be encouraged in venture capital ii) proper policies will be adopted to attract capital, skills, efficiency and technology of NRNs iii) High Level Board of Investment will be activated to facilitate FDI, and so on.

For underdeveloped countries like Nepal, FDI is indispensable in order to mobilize the idle resources. Nepal is facing the problems of revenue-expenditure gap, trade gap and investment - saving gap. In order to mitigate such problems, FDI is needed for this country. Similarly, FDI is needed to fulfill technological, managerial and entrepreneurial skills, and to expand economy through linkage effects.

Nepal is an ideal destination for FDI owing to its rich natural endowments abundant and cheap labour force, huge market in neighboring countries, growing internal market, a well-developed banking and non-banking financial institutions to cater investor's need for finance, fully convertible current account, preferential entry of products in India, and investor friendly government policy. Investment opportunities are open to almost every sector of economy from tea to mining industries. Tourism is the biggest business in the world and there is hardly a country that does not seek either tourists or investment in tourism. Uniquely, Nepal offers some of the most spectacular tourist attractions in the world. Similarly, Nepal is the second richest country in water resources. Therefore, there is a greater prospect of attracting FDI for the proper exploitation of water resources, especially for generating hydroelectricity. Likewise, mineral exploration and exploitation in some of the areas of the country offer promising prospects for foreign direct investment. Good prospect exists for the establishment of pharmaceutical industries, leather industries, carpet industries, industries for readymade garments, tea industries and agro and forest-based industries with foreign collaboration in Nepal.

7.2 Key Findings

The major conclusions derived from this study are as follows:

1. Economic indicators reveal that Nepal's performance is very vulnerable in terms of GNI per capita, commercial viability of natural resources, the extent of poverty and human development prospects. Nepal has not been able to harness its existing resources. In this regard, FDI is a crucial factor which helps to mitigate all these problems to some extent.

2. Despite various policy and legal reforms that have been undertaken and incentive provided in the field of FDI and associated sectors for reaping the maximum benefits of FDI, the country has been able to attract only limited inflows of FDI with the concentration mostly in Central Development Region in SMEs, and mainly from India, USA China, Norway and Japan.

3. According to present study, the constraining factors for foreign investment in Nepal are inadequate infrastructural base, poor state of law and order, lack of skilled and trained manpower, lack of facilitation and effectiveness of one window system, landlockedness position of the country, existing conflict in different parts of country, especially in the Terai region (at present), small market size, bureaucratic hassles, frequent stalemate between India and Nepal over trifle transit and other trade issues and inadequacies and inconsistencies in policies.

Manufacturing sector alone has generated 66067 employment opportunities that are estimated 0.63 percent of total labor force and 0.28 percent of total population. Similarly total labor force employed in different industries of Nepal are estimated to be 346077 (Industries statistics DOI

2006/07), of which FDI has contributed employment as 32.61 percent of total industrial labor force and manufacturing sector alone has contributed 19.09 percent of total industrial labor force. With respect to these data, we may conclude that category-wise possesses very limited employment opportunities but is dominated by manufacturing sector, which is an example of unequal FDI distribution in Nepal. Therefore, FDI has become critical.

A total of 52 countries have invested in Nepal, in which India, China, U.S.A. Norway, and Japan are major FDI sources. India alone has invested 43.72percent of total FDI and 29.47 percent projects in all sectors. This shows that FDI is mainly concentrated from India compared to other countries.

By scale, FDI has mostly been concentrated is small scale industries in which there are 1675 total industries which is equivalently equal to 74.38percent of total FDI projects, while medium and large scale industries occupy second and third position, respectively. This trend also indicates that FDI is basically directed towards small scale industries.

The prospective investment areas in Nepal include agriculture and agriculture related production, manufacturing industries, such as readymade garment and carpet, hydropower, tourism and service industries.

Despite various constraints faced by foreign investors, Nepal possesses a lot of prospects to attract foreign investors because of small bureaucracy, friendly socio-cultural environment and high incentives and facilities available in the country. The availability of cheap labor force, growing markets and other raw materials also attract them to invest in the country.

Even if both saving and investment are growing; the growth rate of saving is lower than growth rate of investment, which causes the widening saving-investment gap in Nepal. Due to high investment-saving gap, the inflow of FDI has become essential in order to maintain the targeted growth rate. The FDI has contributed to bridge the saving-investment gap to some extent.

7.3 Recommendations

The following are the major recommendations suggested based on the findings of the study:

1. Peace and Security: Nothing is possible without peace and security. There is no meaning of changing of laws favorable to the investor till there is unfavorable security environment. An investor always seeks more return from his investment. He will be ready to pay more tax with return than no tax with any return. No one will be ready to invest if there is zero even though there are high incentives and various facilities and the tax rate is

zero. So, peace is necessary to attract foreign investment as well as to promote confidence within the businessman of the country.

2. Maximum publicity: As Nepal is ideal destination for foreign investors owing to its rich natural endowments, abundant and cheap labor force and huge markets in neighboring countries, publicity of Nepal as an investment center through foreign diplomatic offices and commercial diplomatic offices is necessary.
3. Develop Infrastructure: Nepal is still lacking the basic infrastructures due to which the flow of foreign investment and other development activities are less than impressive. The most serious problem in this regard is the skewed distribution of roads, the communication network highly concentrated in a few towns and cities and the meager supply of power for industrial use. So, it is necessary to expand infrastructural base in the economy with the concentrated effort in those regions where these facilities are not adequate.
4. Visas and Repatriation Procedures: There is need for a) Speedy granting of Visa to the foreign investors or authorized representatives of foreign companies on the recommendations of FNCCI on preferential basis, b) Granting of multiple entry visa for the businessmen and their spouses and dependents, and c) an increase in the period of residence visa.
5. One Window System: One window System has to be made effective through the introduction of one stop service center. The center should be made autonomous and operated by the private sector while empowering the scope of addressing investors' complaints, for which the development of competent private sector is necessary.
6. Tax Reforms: Tax reforms have to be made by introducing transferable vouchers for tax and duty refunds, setting administrative units for large taxpayers, removing advance tax payment scheme, and stopping frequent change in tax structure for foreign investors. An efficiently administered, internationally competitive tax and regulation regime is equally essential.
7. Making Strong Networking: It is necessary to make strong networking among the Nepalese investors with foreign investors through FNCCI, NCI and other umbrella organizations.

8. Establish R and D Institutions: Nepal is lacking adequate research and development institutions. The establishment of R and D institutions is a must if Nepal's all round development is to be achieved in a faster pace. If we explore the potential areas of investment, natural resources hitherto unexplored and other natural resources, the domestic or foreign investors may get impetus for active involvements in the economic activities, particularly for the expansion of trade with other countries and thereby achieving targeted rate of growth, high living standard of people and alleviating poverty.

9. Practice Good Governance and Maintain Transparency: Good governance envisages the concept of a balanced role of government with room for private sector and civil society and emphasizes transparency and accountability in the government bureaucracy, the rule of law and effective system of public management. Therefore, Nepal should extensively practice the principle of good governance in order to increase administrative capacities and avoid unfair dealing of power and corruption in order to encourage the foreign investors. The transparent behavior of high ranked officials, transparency in government decisions and their behavior help to create civic consciousness and sense of contribution for the sake of nation. That would help to promote domestic as well as foreign investment in the country.

10. Create Foreign Investment-Friendly Environment: One major challenge is the situation where foreign investment-friendly environment has not been created. The development of entrepreneurship, use of advanced technology, and promotion of technical capacity have to be encouraged in order to reap benefits and face challenges emerging after the WTO membership and the SAPTA, SAFTA and BIMSTEC agreements. Similarly, we have to create friendly environment for foreign and domestic investment for the exploration, development, and commercial operation of national mineral endowments.

11. Conduct Workshop and Seminar: It is necessary to launch a workshop and seminar among foreign and domestic investors in order to familiarize the potentiality and profitability of Nepalese economy to foreign investors. Such programmes should be launched domestically and internationally as per the requirement. It is also necessary to inform foreign investors about the laws and acts governing FDI and the facilities and incentives along with the procedures falling there under.

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Appendix 1
Country Wise Foreign Direct Investment

S.N.	Country of Origin	No of Industries	Foreign Investment	Share in Total FDI	Total No. of Employm
26	Holand	1	1.79	0.00	
24	Ghana	1	1.95	0.00	
12	Colombia	1	2.40	0.00	
13	Congo	1	2.50	0.00	
14	Croatia	1	2.50	0.00	
19	Ecuador	1	2.50	0.00	
25	Guatemala	1	2.50	0.00	
49	Portugal	1	2.50	0.00	
59	Syria	1	2.50	0.00	
61	Tchad	1	2.50	0.00	
16	Czech Republic	1	3.50	0.01	
7	Bhutan	3	3.61	0.01	
54	Slovenia	1	4.19	0.01	
28	Hungeri	1	5.00	0.01	
37	Libiya	1	5.00	0.01	
36	Lebnon	2	7.00	0.01	
3	Azerbaijan	2	9.90	0.01	
68	Uzbekistan	1	10.00	0.01	
20	Egypt	2	12.00	0.02	
21	Finland	5	14.55	0.02	
40	Mexico	2	15.33	0.02	
34	Kazakistan	3	15.40	0.02	
66	Ukraine	2	16.40	0.02	
18	Dutch	1	18.90	0.03	
29	Iran	7	19.70	0.03	
35	Kyrgystan	4	22.50	0.03	
69	Vietnam	2	24.60	0.04	
46	Panama	1	24.98	0.04	
57	Sweden	8	27.60	0.04	
43	New Zealand	9	30.07	0.04	2
41	N. Korea	3	32.55	0.05	
5	Belgium	11	41.84	0.06	
51	S. Africa	5	47.30	0.07	
56	Sri Lanka	4	47.41	0.07	
48	Poland	7	55.39	0.08	
63	Turkey	9	60.70	0.09	
2	Austria	15	81.36	0.12	

47	Philippianes	11	97.28	0.14	1
55	Spain	13	107.23	0.16	
62	Thailand	11	116.29	0.17	1
6	Bermuda	6	118.27	0.17	1
50	Russia	18	125.78	0.18	
31	Israel	12	139.25	0.20	
45	Pakistan	15	149.73	0.22	2
60	Taiwan	9	174.62	0.26	
17	Denmark	20	193.36	0.28	
38	Malaysia	13	245.18	0.36	
32	Italy	19	264.63	0.39	
4	Bangladesh	26	264.66	0.39	4
15	Cyprus	1	304.00	0.45	
22	France	49	309.85	0.46	2
58	Switzerlana	31	331.25	0.49	
30	Ireland	6	340.97	0.50	
1	Australia	34	395.22	0.58	
8	Brazil	5	520.83	0.77	
42	Netherlands	34	588.89	0.87	3
27	Hong Kong	19	740.84	1.09	2
64	UAE	5	886.31	1.30	
23	Germany	79	926.72	1.36	3
9	Bri.Virg.Is	3	961.43	1.41	1
44	Norway	12	1135.83	1.67	
33	Japan	154	1171.24	1.72	6
53	Singapore	23	1505.39	2.21	1
65	UK	103	1539.71	2.26	8
10	Canada	25	2166.54	3.18	1
39	Mauritius	5	2845.00	4.18	
52	S.Korea	149	4320.89	6.35	6
67	USA	174	4955.90	7.28	12
11	China	401	7036.17	10.34	23
29	India	501	32390.31	46.91	56
	Total	2108	68049.97	100.00	155

Source:DOI/GoN/2010/11

Appendix 2
District wise Foreign Direct Investment

S.N.	District	No of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment	Tota
1	Dhankuta	1	46.62	37.62	0.00	
2	Ilam	2	145.00	117.90	145.00	
3	Jhapa	13	1036.14	663.90	278.35	
4	Morang	26	3403.83	2687.41	1661.47	
5	Okhaldhunga	1	250.00	245.00	19.00	
6	Sankhuwasabha	1	500.00	488.00	500.00	
7	Saptari	2	410.00	384.00	282.40	
8	Sirahaa	4	2494.00	2230.07	1913.20	
9	Solukhumbu	9	2959.17	2856.59	926.13	
10	Sunsari	20	2324.17	1693.97	1252.25	
11	Taplejung	2	12.10	10.14	11.90	
12	Bara	43	7265.35	5752.70	2072.08	
13	Bhaktapur	46	1958.25	1213.12	762.23	
14	Chitwan	48	3440.17	2752.25	1128.36	
15	Dhading	9	2405.89	2351.70	2171.00	
16	Dhansha	3	291.04	249.71	165.52	
17	Dolakha	5	5800.20	5281.03	1505.73	
18	Kathmandu	1176	53018.67	43890.58	23477.00	
19	Kavre	51	1780.94	1493.79	1121.92	
20	lalitpur	261	10250.57	8047.69	7101.97	
21	Makwanpur	49	4720.38	3594.07	2321.73	
22	Nuwakot	8	220.58	193.65	110.70	
23	Out of Valley	1	24.34.00	21.22	24.34	
24	Parsa	41	3393.32	2387.50	2052.85	
25	Ramechhap	1	291.34	237.89	262.21	
26	Rasuwa	5	2622.40	2522.28	1236.43	
27	Rautahat	1	559.18	509.18	44.06	
28	Sindhuli	1	9.00	7.70	9.00	
29	Sindhupalchowk	8	6832.73	6603.59	1292.08	
30	Terai Region	1	60.00	55.00	16.00	
31	Arghakhachi	2	1342.09	199.27	449.6	
32	Gorkha	4	704.09	648.32	75.23	
33	Kalikot	1	0.00	1800.00	1520.00	
34	kapilbastu	9	421.71	206.42	307.81	
35	Kaski	116	12308.46	11665.90	4130.58	
36	Lamjung	5	421.71	206.42	307.81	
37	Manang	2	915.00	898.00	203.00	
38	Manang, Tanah	1	75.00	69.75	47.01	

39	Mustang	2	461.74	449.11	1.07
40	Nawalparasi	21	2771.18	2373.76	513.40
41	Palpa	2	330.00	183.38	304.90
42	Parbat	1	1100.00	1089.00	1.50
43	Rupandehi	29	5630.09	4603.14	2958.59
44	Tanahu	3	89.02	73.20	37.50
45	Undefined	3	251.67	154.37	37.00
46	Banke	16	513.83	404.44	152.43
47	Bardiya	7	57.88	50.96	29.14
48	Dang	8	259.99	218.40	199.90
49	Humla	5	41.00	37.20	19.24
50	Rolpa	3	32.22	28.31	29.00
51	Surkhet	2	3587.00	2819.40	2187.00
52	Achham	4	571.18	550.68	418.18
53	Baitadi	4	80.00	71.80	65.00
54	Darchula	1	34.00	32.00	2.94
55	Doti	1	10.00	7.20	10.00
56	Kailali	3	919.04	861.81	192.80
57	Kanchanpur	13	776.37	695.11	147.72
58	Kavrepalanchock	1	30.00	28.00	20.40

Source:DOI/GoN/2010/11

Appendix 3
Year wise Foreign Direct Investment

Fiscal Year	No. of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment	Total No. of e
Up To Ashad	58	5102.80	4271.60	449.56	

2046/47	30	2438.19	2139.60	398.51	
2047/48	23	863.56	690.74	406.28	
2048/49	38	3508.17	2902.10	597.84	
2049/50	64	17886.22	16210.81	3083.67	
2050/51	38	3733.23	3175.66	1378.76	
2051/52	19	1627.28	1247.85	477.59	
2052/53	47	10047.47	9398.54	2219.86	
2053/54	77	8559.25	6692.15	2395.54	
2054/55	77	5569.38	5142.32	2000.28	
2055/56	50	5324.42	4380.17	1666.42	
2056/57	71	2669.09	1910.24	1417.61	
2057/58	96	7917.62	6122.49	3102.56	
2058/59	77	3318.53	1559.59	1209.65	
2059/60	74	4921.82	3608.25	1793.77	
2060/61	78	4323.74	3775.86	2764.80	
2061/62	63	1796.10	1149.49	1635.77	
2062/63	116	4121.08	3296.95	2606.31	
2063/64	188	3425.57	2650.56	3226.79	
2064/65	212	20403.88	16896.27	9811.00	
2065/66	231	9417.89	7530.02	6255.09	
2066/67	171	15853.78	14987.98	9100.00	
2067/68	209	11250.19	9375.46	10050.71	
Total	2108	152181.75	129116.39	68049.97	

Source:DOI/GoN/2010/11